

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the Commonwealth of Massachusetts (the Commonwealth) have been prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for establishing governmental accounting and financial reporting principles. The significant Commonwealth accounting policies are described below.

### *a. Reporting Entity –*

The state government is comprised of three branches: the Executive Branch, with the Governor as the chief executive officer; the Legislative Branch, consisting of a Senate of 40 members and a House of Representatives of 160 members; and the Judicial Branch made up of the Supreme Judicial Court, the Appeals Court and the Trial Court. In addition, the Legislature has established 56 independent authorities and agencies. Below the level of state government are 14 county governments and 351 cities and towns exercising the functions of local governments. As of July, 1997 two counties were abolished and absorbed by the state government.

For financial reporting purposes, the Commonwealth of Massachusetts has included all funds, organizations, account groups, agencies, boards, commissions and institutions. The Commonwealth has also considered all potential component units for which it is financially accountable as well as other organizations for which the nature and significance of their relationship with the Commonwealth are such that exclusion would cause the Commonwealth's financial statements to be misleading or incomplete. As required by GAAP, these financial statements present the Commonwealth of Massachusetts (the primary government) and its component units. The Commonwealth has included 37 entities as component units in the reporting entity because of the significance of their operational and/or financial relationships with the Commonwealth.

**Blended Component Units** – Blended component units are entities which are legally separate from the Commonwealth, but are so related to the Commonwealth that they are, in substance, the same as the Commonwealth or entities providing services entirely or almost entirely to the Commonwealth. The following Component Units are blended within the Primary Government:

In the Pension Trust Funds:

- (1) The Pension Reserves Investment Trust Fund (PRIT) was created in 1984, through General Laws Chapter 661 of the Acts of 1983 as amended by the Acts of 1987. PRIT is the investment portfolio for the assets of member state and local retirement systems. PRIT is managed by the Pension Reserves Investment Management (PRIM) Board. Effective January 1, 1997, the Massachusetts State Teachers' and Employees' Retirement Systems Trust (MASTERS) was merged with PRIT.

The MASTERS was a combined investment fund for the State Employees' Annuity Fund and the Teachers' Annuity Fund. The MASTERS was established by the State Treasurer, as Trustee, under a Declaration of Trust dated January 1, 1989, pursuant to authority granted under MGL, Chapter 29, Section 38a. MASTERS was dissolved as of November 7, 1997 under Chapter 315 of the Acts of 1996 and its assets were transferred to PRIT.

In addition, the following entities are blended into the discretely presented university and college and fund type:

- (2) The Massachusetts State College Building Authority provides dormitories, dining commons and other facilities primarily for use by students and staff of certain state colleges of the Commonwealth. The building authority is governed by a board comprised of members appointed by the Governor.
- (3) The University of Massachusetts Building Authority provides dormitories, dining commons and other buildings and structures for the use of the University of Massachusetts and its students and staff; it is governed by a nine member board appointed by the Governor.
- (4) The University of Massachusetts Medical School Teaching Hospital Trust Fund accumulates the results from operations of the Teaching Hospital. The Board of Trustees of the University of Massachusetts is the governing body of the Teaching Hospital.
- (5) The University of Massachusetts Medical School Group Practice Plan is a trust fund that receives and distributes revenue from medical services to its members. Each member of the clinical faculty of the Medical School is required to be a member of the Group Practice Plan.

- (6) The University of Massachusetts Medical Center Self-Insurance Trust provides professional liability, hospital premises liability and physicians' and surgeons' liability coverage for the Medical Center, the Teaching Hospital and the Group Practice Plan. The Self-Insurance Trust is governed by a 24 member board of which 23 are appointed by the Governor.
- (7) The Worcester City Campus Corporation, doing business as UMASS Health System, is a not-for-profit organization for the purpose of supporting the Clinical System of the University of Massachusetts Medical Center by organizing, operating and supporting a health system network. The University of Massachusetts acting through its Board of Trustees is the sole corporate member of the UMASS Health System which is governed by a nine member board of directors.
- (8) The University of Massachusetts Foundation, Inc. fosters and promotes the growth, progress and general welfare of the University of Massachusetts. It is governed by a twenty-seven member board of directors nominated by the President of the University of Massachusetts and approved by the board. The President, the five campus Chancellors and the Treasurer of the University are ex-officio members.
- (9) The University of Massachusetts Dartmouth Foundation, Inc. incorporated as a charitable corporation, under Massachusetts General Laws, whose primary purpose is to render financial assistance to educational programs of the University. It is governed by a twenty-five member board nominated and appointed by the board.
- Discrete Component Units** – Discrete component units are entities which are legally separate from the Commonwealth, but are financially accountable to the Commonwealth, or whose relationships with the Commonwealth are such that exclusion would cause the Commonwealth's financial statements to be misleading or incomplete. The Component Units column of the combined financial statements include the financial data of the following entities:
- (1) The Massachusetts Bay Transportation Authority (MBTA) operates mass transit facilities within the Greater Boston metropolitan area, which consists of 78 cities and towns. The MBTA is overseen by a seven member board of directors of which six are appointed by the Governor. The Commonwealth guarantees the debt of the MBTA and funds deficiencies in the net cost of service.
- (2) The Massachusetts Turnpike Authority (MTA) operates the Massachusetts Turnpike and the Sumner - Callahan - Williams Tunnels. The MTA is governed by three members each appointed by the Governor. Beginning in fiscal year 1996, the Commonwealth guarantees debt of the MTA. The MTA became a component unit for the first time in fiscal 1996. The MTA is legally required to use the calendar year for their fiscal reporting cycle.
- (3) The Regional Transit Authorities (RTAs) provide transportation to areas not serviced by the MBTA. The RTAs are fiscally dependent on the Commonwealth as evidenced from the need for approval by the Secretary of the Executive Office of Transportation and Construction before an RTA can issue bonded debt. In addition, the Commonwealth subsidizes a minimum of 50% of the net cost of service for the RTAs. There are 15 RTAs as follows:
- Berkshire Regional Transit Authority
  - Brockton Area Transit Authority
  - Cape Ann Transportation Authority
  - Cape Cod Regional Transit Authority
  - Franklin Regional Transit Authority
  - Greater Attleboro/Taunton Regional Authority
  - Greenfield-Montague Transportation Area
  - Lowell Regional Transit Authority
  - Martha's Vineyard Transit Authority
  - Merrimack Valley Regional Transit Authority
  - Montachusett Regional Transit Authority
  - Nantucket Regional Transit Authority
  - Pioneer Valley Transit Authority
  - Southeastern Regional Transit Authority
  - Worcester Regional Transit Authority
- (4) The Massachusetts Water Pollution Abatement Trust (MWPAT) provides a combination of federal and Commonwealth funds for water pollution abatement projects. MWPAT is governed by a three member board of directors that includes the State Treasurer, Commissioner of the Department of Environmental Protection and the Secretary of the Executive Office for Administration and Finance.
- (5) The Massachusetts Convention Center Authority (MCCA) manages the operation of the John B. Hynes Veterans Memorial Convention Center and the Boston Common Parking Garage. The MCCA is governed by a seven member board of directors which includes the State Treasurer and four appointments made by the Governor. The

Commonwealth provides grants to fund annual debt service of the bonds issued and subsidies to fund annual operating deficits.

***Economic Development –***

- (6) The Massachusetts Community Development Finance Corporation (MCDFC) provides community development in economically depressed areas in Massachusetts. The MCDFC is governed by a board of directors comprised of nine members including the Secretary of Economic Development, Secretary of Communities and Development, the Secretary for Administration and Finance and six appointments made by the Governor.
- (7) Corporation for Business, Work and Learning (CBWL) provides services that promote business modernization, economic growth and opportunities for gainful and fulfilling employment. MCBWL is governed by a nineteen member board of Directors which includes the Director of Economic Development and the Director of the Department of Labor and Workforce development. The entity is funded with Commonwealth grants. CBWL was formed effective July 1, 1996, through a merger between Bay State Skills Corporation (BSSC) and Industrial Services Program (ISP). Both BSSC and ISP were component units of the Commonwealth in fiscal year 1996.
- (8) The Massachusetts International Trade Council, Inc. (MITC) stimulates export development through export assistance programs and promotion of foreign investment in Massachusetts industries. The entity is funded with Commonwealth grants. The governor appoints the two member board.
- (9) The Government Land Bank (GLB) aids public and private agencies in the conversion and redevelopment of surplus Commonwealth and federal property, and blighted, decadent or substandard property for the purpose of stimulating economic development and provide housing to low and moderate income persons. The GLB is governed by a board of directors comprised of ten members including the Commissioner of Administration, the Secretary of Communities and Development and eight appointments made by the Governor. The GLB has access to \$50 million of general obligation bonds and the Commonwealth also provides subsidy assistance. The GLB also requires Commonwealth approval to issue bonded debt.
- (10) The Massachusetts Technology Park Corporation (MTPC) manages Massachusetts educational centers that foster economic development within the Commonwealth by providing Massachusetts colleges and universities with access to equipment, machinery and instructional assistance necessary to offer programs in certain emerging areas of science and technology. MTPC is governed by a board of directors comprised of twenty-three members including the Secretary of Economic Affairs, the Secretary for Administration and Finance, the Chancellor of the Board of Regents and twenty appointments made by the Governor. The Commonwealth provides grants to fund operations.
- (11) The Community Economic Development Assistance Corporation (CEDAC) provides development assistance to nonprofit corporations to expand the supply of affordable housing and to foster the revitalization of economically distressed areas. The Governor appoints the nine member board of directors.
- (12) The Massachusetts Corporation for Education Telecommunications (MCET) operates a statewide telecommunication network for the Commonwealth public and private sector to improve the quality of education. MCET is governed by a board of directors comprised of eighteen members of which twelve are appointed by the Governor. The Corporation receives grants from the Commonwealth to fund its programs.
- (13) The Massachusetts Housing Partnership (MHP) addresses local needs for affordable housing and neighborhood development through group effort of the public and private sectors and state and local government. The entity is governed by a seven member board of directors of which two members are appointed by the Governor, and one member is the Secretary for Administration and Finance and one is the Secretary of Communities and Development. The Commonwealth provides funding to MHP.
- (14) The Commonwealth Zoological Corporation manages Franklin Park Zoo and the Walter D. Stone Memorial Zoo. The Corporation's eleven member board is appointed by the Governor. The Commonwealth subsidizes a substantial portion of the operations of the zoos. Effective June 3, 1997, the Corporation began doing business as Zoo New England.

***Availability of Financial Information for Component Units and Individual Institutions of Higher Education -***

Complete financial statements of the individual component units can be obtained directly from their respective administrative offices.

Discretely presented component units condensed financial statements are included in the component unit column of the general purpose financial statements.

**The following discretely presented component unit was audited by Deloitte & Touche LLP:**

Massachusetts Water Pollution Abatement Trust  
Office of the State Treasurer  
One Ashburton Place, 12th Floor  
Boston, MA 02108

**The following discretely presented component units were audited by auditors other than Deloitte & Touche LLP:**

Berkshire Regional Transit Authority  
67 Downing Parkway  
Pittsfield, MA 01201

Brockton Area Transit Authority  
70 School Street  
Brockton, MA 02401

Cape Ann Transportation Authority  
P. O. Box 511  
Gloucester, MA 01931

Cape Cod Regional Transit Authority  
585 Main Street, P. O. Box 2006  
Dennis, MA 02638

Community Economic Development  
Assistance Corporation  
19 Temple Street  
Boston, MA 02111

Commonwealth Zoological Corporation  
1 Franklin Park  
Boston, MA 02121

Corporation for Business, Work and Learning  
The Schrafft Center  
529 Main Street  
Boston, MA 02129

Franklin Regional Transit Authority  
474 Main Street  
Greenfield, MA 01301

Government Land Bank  
One Court Street, Suite 200  
Boston, MA 02108

Greater Attleboro/Taunton Regional Authority  
7 Mill Street  
Attleboro, MA 02703

Greenfield-Montague Transportation Area  
382 Deerfield Street  
Greenfield, MA 01301

Lowell Regional Transit Authority  
145 Thorndike Street  
Lowell, MA 01852

Martha's Vineyard Transit Authority  
P. O. Box 158  
Edgartown, MA 02539

Massachusetts Bay Transportation Authority  
Ten Park Plaza  
Boston, MA 02116

Massachusetts Community Development Finance  
Corporation  
10 Post Office Square, Suite 1090  
Boston, MA 02109

Massachusetts Convention Center Authority  
900 Boylston Street  
Boston, MA 02115

Massachusetts Corporation for Educational  
Telecommunications  
1 Kendall Square, Building 1500  
Cambridge, MA 02139

Massachusetts Housing Partnership  
2 Oliver Street  
Boston, MA 02109

Massachusetts International Trade Council, Inc.  
100 Cambridge Street, Room 1302  
Boston, MA 02202

Massachusetts Technology Park Corporation  
75 North Drive  
Westborough, MA 01581

Massachusetts Turnpike Authority  
Ten Park Plaza, Suite 5170  
Boston, MA 02116

Merrimack Valley Regional Transit Authority  
85 Railroad Avenue  
Bradford, MA 01835

Montachusett Regional Transit Authority  
Rear 1427 Water Street  
Fitchburg, MA 01420

Nantucket Regional Transit Authority  
16 Board Street  
Nantucket, MA 02554

Pioneer Valley Transit Authority  
2808 Main Street  
Springfield, MA 01107

Southeastern Regional Transit Authority  
25 North Sixth Avenue  
New Bedford, MA 02740

Worcester Regional Transit Authority  
287 Grove Street  
Worcester, MA 01605

**The following blended component units have been audited by firms other than Deloitte & Touche LLP:**

Included in the University and College Fund Type:

Massachusetts State College Building Authority  
75 Park Plaza, P.O. Box 5  
Boston, MA 02116

University of Massachusetts  
Medical School Group Practice Plan  
100 Venture Way, 2nd Floor  
Hadley, MA 01035

University of Massachusetts Building Authority  
100 Venture Way, 2nd Floor  
Hadley, MA 01035

University of Massachusetts  
Medical School Teaching Hospital Trust Fund  
100 Venture Way, 2nd Floor  
Hadley, MA 01035

University of Massachusetts  
Medical Center Self Insurance Trust  
100 Venture Way, 2nd Floor  
Hadley, MA 01035

University of Massachusetts Dartmouth  
Foundation Inc.  
Old Westport Road  
No. Dartmouth, MA 02747

University of Massachusetts Foundation, Inc.  
One Beacon Street, 26th Floor  
Boston, MA 02108

UMASS Health System  
26 Queen Street  
Worcester, MA 01610

**The following investment vehicles of the Pension Trust Funds were audited by firms other than Deloitte & Touche LLP:**

Pension Reserve Investment Trust Fund  
125 Summer Street, 10th Floor  
Boston, MA 02110

MASTERS  
125 Summer Street, 10th Floor  
Boston, MA 02110

**Higher Education - The following institutions of higher education were audited by firms other than Deloitte & Touche LLP:**

Bridgewater State College  
Boyden Hall  
Bridgewater, MA 02324

Fitchburg State College  
160 Pearl Street  
Fitchburg, MA 01420

Framingham State College  
100 State Street  
Framingham, MA 01701

Holyoke Community College  
303 Homestead Avenue  
Holyoke, MA 01040

Massachusetts Bay Community College  
50 Oakland Street  
Wellesley, MA 02181

Massachusetts College of Art  
621 Huntington Avenue  
Boston, MA 02115

Massasoit Community College  
One Massasoit Boulevard  
Brockton, MA 02402

Middlesex Community College  
33 Kearney Square  
Lowell, MA 01852

Mount Wachusett Community College  
444 Green Street  
Gardner, MA 01440

Northern Essex Community College  
100 Elliot Street  
Haverhill, MA 01830

Springfield Technical Community College  
One Armory Square, P. O. Box 9000  
Springfield, MA 01101

University of Massachusetts  
100 Venture Way, 2nd Floor  
Hadley, MA 01035

Westfield State College  
577 Western Avenue  
Westfield, MA 01086

Worcester State College  
486 Chandler Street  
Worcester, MA 01035

**The following institutions of higher education did not have separate audits performed on their individual financial statements:**

Berkshire Community College  
Bristol Community College  
Bunker Hill Community College  
Cape Cod Community College  
Greenfield Community College  
Massachusetts Maritime Academy  
North Adams State College  
North Shore Community College  
Quinsigamond Community College  
Roxbury Community College  
Salem State College

The following are “related organizations” under GASB 14 “The Financial Reporting Entity”: Massachusetts Port Authority, Massachusetts Housing Finance Agency, Massachusetts Health and Educational Facilities Authority, Massachusetts Technology Development Corporation and Massachusetts Industrial Finance Agency. The Commonwealth is responsible for appointing a voting majority of the members of each entity’s board, but the Commonwealth’s accountability does not extend beyond the appointments.

**b. Fund Accounting –**

The Commonwealth reports its financial position and results of operations in funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures/expenses. Transactions between funds within a fund type, if any, have not been eliminated.

Account groups are accounting entities used to provide accountability for the Commonwealth’s general fixed

assets and general long-term obligations. They are not considered funds because they do not report expendable available financial resources and related liabilities.

The Commonwealth has established the following fund categories (further divided by fund types), and account groups:

**Governmental Funds** – account for the general governmental activities of the Commonwealth.

The General Fund is the primary operating fund of the Commonwealth. It is used to account for all governmental transactions, except those required to be accounted for in another fund.

Special Revenue Funds account for specific revenue sources, other than expendable trusts or major capital financing, that have been segregated according to state finance law to support specific governmental activities.

Capital Projects Funds account for financial resources used to acquire or construct major capital assets and to finance local capital projects. These resources are derived primarily from proceeds of general and specific obligation bonds and federal reimbursements.

**Proprietary Funds** – includes internal service funds which account for the financing of services provided by one department or agency to other departments or agencies, or to other governmental units.

**Fiduciary Funds** – account for assets held by the Commonwealth in a trustee capacity, or as an agent for individuals, private organizations, other governmental units, and/or other funds.

Expendable Trust Funds account for trusts whose principal and income may be expended for their designated purpose.

Nonexpendable Trust Funds account for trusts whose principal cannot be spent.

Pension Trust Funds account for net assets held in trust for the State Employees’ and Teachers’ Retirement Systems.

Agency Funds account for assets the Commonwealth holds on behalf of others. Agency Funds are custodial in nature and do not involve measurement of operations.

**University and College Funds** – account for the activities specific to the operation of the Commonwealth’s public institutions of higher education, including its medical school.

Current Funds are comprised of unrestricted funds which may be used at the discretion of the individual institution's governing bodies and restricted funds which must be utilized for specific purposes established by others.

Loan Funds account for resources available to make loans to students, faculty and staff.

Endowment and Similar Funds are comparable to trust funds, and they must be administered according to the terms of specific agreements.

Plant Funds account for resources that have been or will be invested to acquire or repair fixed assets or for the related debt service.

**Account Groups** – establish control and accountability over the Commonwealth's general fixed assets and general long-term obligations.

The General Fixed Assets Account Group accounts for general fixed assets of the Commonwealth, excluding the fixed assets of the Proprietary Funds, University and College Fund and the discretely presented Component Units.

The General Long-term Obligations Account Group accounts for long-term bonds and notes issued by the Commonwealth, capital leases, compensated absences, and other long-term obligations, excluding the liabilities of the University and College Fund, the discretely presented Component Units and the Proprietary Service Funds.

**Component Units** – account for the activity of the entities that are separate from the primary government but are financially accountable to the Commonwealth. The Component Units are discretely presented in the general purpose financial statements.

### ***c. Measurement Focus and Basis of Accounting –***

Governmental and Expendable Trust Funds are accounted for using a flow of current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they become both measurable and available. "Available" means expected to be collected within the current period or soon enough thereafter to be used to pay liabilities of the current period. Significant revenues susceptible to accrual include income, sales and use, corporation and other taxes, federal grants, federal reimbursements and other reimbursements for use of materials and services. Revenues from other financing sources are recognized when received. Expenditures are recorded in the period

in which the related fund liability is incurred. Principal and interest on general long-term obligations are recorded as fund liabilities when due.

Proprietary Funds, Nonexpendable Trust and Pension Trust Funds and discretely presented Component Units are reported using a flow of economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. This measurement focus emphasizes the determination of net income. For all proprietary funds and component units that use proprietary fund accounting, the Commonwealth applies all applicable Financial Accounting Standards Board (FASB) pronouncements issued on or prior to November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Agency Fund assets and liabilities are reported using the modified accrual basis of accounting. They are custodial in nature and do not measure results of operations or have a measurement focus.

University and College Fund activities are reported using the accrual basis of accounting, except that depreciation is recorded only for those plant fund assets related to the hospital, group practice plan, and foundations.

**Statutory (Budgetary) Accounting** – The Commonwealth's books and records and other official reports are maintained on the basis of accounting used in the preparation of the Commonwealth's legally adopted annual budget (statutory basis). The statutory basis emphasizes accountability and the budgetary control of appropriations, but is not intended to present the Commonwealth's financial condition and results of operations in conformity with GAAP.

Under the statutory basis, revenues are generally recognized when the cash deposit is received. However, revenues receivable for federal grants and reimbursements are recognized when related expenditures are incurred. Amounts due from certain political subdivisions of the Commonwealth are recognized when considered measurable and available at year end. Deeds excise taxes are recognized at the time of collection by the counties.

Statutory expenditures generally are recorded when the related cash disbursement occurs. At year end, payroll is accrued and payables are recognized, to the extent of approved encumbrances, for goods or services received by June 30. Costs incurred under the federally-sponsored Medicaid program, amounts required to settle claims and judgments against the Commonwealth, and

certain other liabilities are not recognized until they are encumbered or otherwise processed for payment. All encumbrances that do not relate to specific payables lapse at year end.

**d. Cash and Short-Term Investments and Investments -**

The Commonwealth follows the practice of pooling cash and cash equivalents for some of its Governmental and Fiduciary Funds. Cash equivalents consist of short-term investments with an original maturity of three months or less and are stated at cost, which approximates fair value. Interest earned on pooled cash is allocated to the General Fund, Expendable Trust Funds and to certain Special Revenue Funds when so directed by law.

The Pension Trust Funds, with investments totaling \$18,969,346,000, at fair value, are permitted to make investments in equity securities, fixed income securities, real estate and other alternative investments. For investments traded in an active market, the fair value of the investment will be its market price. The Pension Trust Funds include investments in real estate, venture capital funds, real estate funds, limited partnerships, futures pools, international hedge pools, commodities pools, balanced pools, leveraged buyouts, private placements and other alternative investments. The structure, risk profile, return potential and marketability differ from traditional equity and fixed income investments. Concentrations of credit risk exist if a number of companies in which the Fund has invested, are engaged in similar activities and have similar economic characteristics that could cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. To mitigate the exposure to concentrations of risk, the Pension Trust Funds invest in a variety of industries located in diverse geographic areas. As of June 30, 1997, the estimated fair values, determined by management with input from the investment managers, of these real estate and alternative investments were \$1,540,599,000 in the Pension Trust Funds, representing 5.4%, of the total assets of the Fiduciary Fund Type.

Included in the discretely presented Component Units is \$10,150,000 in investments, whose valuation was determined by management. In making its valuations, management considered the cost of investments, current and past operating results, current economic conditions and their effect on the borrowers, estimated realizable values of collateral, and other factors pertinent to the valuation of investments. There is no public market for most of the investments. Management, in making its evaluation, has in many instances relied on financial data and on estimates by management of the companies they have invested in as to the effect of future developments.

Investments of the University of Massachusetts (UMass) are stated at fair value (except for debt instruments to be held to maturity which are carried at amortized cost).

Annuity contracts represent guaranteed investment contracts and are carried at present value.

Investments of the Commonwealth's Deferred Compensation Plan are carried at fair value.

**e. Securities Lending Program -**

The Pension Trust Funds participate in securities lending programs. Under these programs, the Trusts receive a fee for allowing brokerage firms to borrow certain securities for a predetermined period of time, securing such loans with cash or collateral typically equaling 102% to 105% of the market value of the security borrowed. At June 30, 1997, the market value of the securities on loan from PRIT was approximately \$1,026,000,000. The value of the collateral held by PRIT amounted to \$1,057,000,000 at June 30, 1997. The PRIT trust securities on loan were collateralized at all times by U.S. Treasury securities of at least 100% of the value of the loaned securities. The collateral securities cannot be pledged or sold by PRIT unless the borrower defaults. The securities on loan are included in investments at fair value as of June 30, 1997 in the combined balance sheet.

**f. Receivables -**

Receivables are stated net of estimated allowances for uncollectible accounts. Reimbursements due to the Commonwealth for its expenditures on federally-funded reimbursement and grant programs are reported as "Due from federal government." The receivables in the University and College Fund and Component Units column are amounts that have arisen in the normal course of operations.

**g. Due From Cities and Towns -**

Represents reimbursement due to the Commonwealth for its expenditures on certain programs for the benefit of cities and towns.



***h. Inventories and Other Assets -***

Inventories included in the Governmental Fund Types represent food stamps on hand and are stated at face value.

The costs of materials and supplies are recorded as expenditures in Governmental Funds when purchased. Such inventories are not material in total to the financial statements and therefore are not recorded.

Inventories included within the University and College Fund Type and the Component Unit column are stated at the lower of cost (using the first-in, first-out method), or market (on the purchase or consumption method).

***i. Fixed Assets -***

For Governmental Funds, general fixed asset acquisitions are recorded as expenditures in the acquiring fund and capitalized in the General Fixed Assets Account Group in the year purchased. General fixed assets are recorded at historical cost, or at estimated historical cost if actual historical cost is not available. Donated fixed assets are recorded at the estimated fair market value at the date of the donation.

The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized. Improvements are capitalized.

The Commonwealth capitalizes all land. It capitalizes buildings, equipment, and computer software, with costs in excess of \$15,000 at the date of acquisition and with expected useful lives of greater than one year. Interest incurred during construction is not material and it is not capitalized. Public domain general fixed assets and infrastructure (roads, bridges, tunnels, dams, water and sewer systems, etc.) are not capitalized. No depreciation is provided on general fixed assets.

Fixed assets of the University and College Fund are recorded at cost when purchased or constructed. Major construction projects financed through the issuance of Commonwealth bonds are not recognized as additions to investment in plant until completed. All land and library collections are capitalized. The University of Massachusetts and state colleges capitalize all other fixed assets with costs in excess of \$1,000. The community colleges capitalize all other fixed assets with costs in excess of \$15,000 consistent with the Commonwealth's fixed asset policy. No provision for depreciation is recognized except for depreciation recorded on the University of Massachusetts Medical School Teaching Hospital, Group Practice Plan, Worcester City Campus Corporation, University of Massachusetts Foundation, Inc. and the University of

Massachusetts Dartmouth Foundation, Inc. fixed assets, which are recorded on a straight-line basis over the estimated useful lives of the assets.

Fixed assets of the Component Units are capitalized upon purchase and depreciated on a straight-line basis over the estimated useful lives of the assets. Interest incurred during construction is capitalized. The estimated useful lives of fixed assets are as follows:

Structures and improvements.....	3 - 100 years
Equipment, furniture, fixtures and vehicles.....	3 - 25 years

***j. Interfund/Intrafund Transactions -***

During the course of its operations, the Commonwealth records transactions between funds and/or between departments. Transactions of a buyer/seller nature between departments within a fund are not eliminated from the individual fund statements. Receivables and payables resulting from transactions between funds are classified as "Due from other funds" or "Due to other funds" on the balance sheet.

Receivables and payables resulting from transactions between Component Units and the primary government are classified as "Due to/from primary government" or "Due to/from Component Units."

***k. Fringe Benefit Cost Recovery -***

The Commonwealth appropriates and pays the fringe benefit costs of its employees and retirees through the General Fund. These fringe benefits include the costs of employees' group health insurance, pensions, unemployment compensation and other costs necessary to support the workforce. As directed by Massachusetts General Laws, these costs are assessed to other funds based on payroll costs, net of credits for direct payments. Since fringe benefit costs are not separately appropriated or otherwise provided for in these funds, the required assessment creates an unfavorable budget variance in the budgeted funds. The employees' group health insurance is accounted for through the Internal Service Fund.

***l. School Construction Grants -***

The Commonwealth, through legislation, is committed to reimburse certain cities, towns and regional school districts for a portion of their debt service costs for school construction and renovation. The amounts expected to be liquidated with available financial resources are reported as expenditures in fund liabilities. The long-term portion of this liability is recorded in the General Long-Term Obligations Account Group.

**m. Compensated Absences -**

For Governmental Funds and Expendable Trust Funds, vested or accumulated vacation and sick leave expected to be liquidated with expendable available financial resources are reported as expenditures and fund liabilities. Amounts that are not expected to be so liquidated are reported in the General Long-Term Obligations Account Group.

Employees are granted vacation and sick leave in varying amounts based on collective bargaining agreements and state laws. Upon retirement, termination or death, certain employees are compensated for unused vacation and sick leave (subject to certain limitations) at their then-current rate of pay.

In the University and College Funds and the discretely presented Component Units, employees' accumulated vacation and sick leave are recorded as an expense and liability as the benefits accrue.

**n. Lottery Revenue and Prizes -**

Ticket revenues and prizes awarded by the Massachusetts Lottery Commission are recognized as drawings are held. For certain prizes payable in installments, the Commonwealth purchases annuities and principal only and interest only treasury strips in the Commonwealth's name, which are recorded as annuity contracts and prizes payable in the Agency Funds. The Commonwealth retains the risk related to such annuities.

**o. Risk Financing -**

The Commonwealth does not insure for employees workers' compensation, casualty, theft, tort claims and other losses. Such losses, including estimates of amounts incurred but not reported, are included as accrued liabilities in the accompanying financial statements when the loss is incurred. For employees workers' compensation, the Commonwealth assumes the full risk of claims filed under a program managed by the Public Employee Retirement Administration Commission and another program for individuals working on the Central Artery/Third Harbor Tunnel Project managed by the Massachusetts Highway Department. For personal injury or property damages, Massachusetts General Laws limit the risk assumed by the Commonwealth to \$100,000 per occurrence, in most circumstances. The Group Insurance Commission administers health care and other insurance for the Commonwealth's employees and retirees.

The Commonwealth accounts for workers' compensation and group insurance risk financing activities in the Internal Service Funds. Revenues are charged to other

funds as reimbursement for expenses related to claims and judgments. Other risk financing activities are accounted for in the General Fund.

**p. Fund Balances -**

The Commonwealth reports fund balances as reserved where legally restricted for a specific future use. Otherwise, these balances are considered unreserved.

Fund balances have been reserved as follows:

"Reserved for continuing appropriations" – identifies unexpended amounts in appropriations which the Legislature has specifically authorized to be carried into the next fiscal year.

"Reserved for tax reduction" - identifies the amount set aside according to Section 6 of Chapter 29B of the Massachusetts General Laws. The amount can only be used to reduce personal income taxes as provided in the Chapter.

"Reserved for Commonwealth stabilization" – identifies amounts set aside according to Section 5C of Chapter 29 of the Massachusetts General Laws.

"Reserved for employees' pension benefits" – identifies the net assets of the Commonwealth's public employee retirement systems which cannot be used for any other purpose.

"Reserved for unemployment benefits" – identifies amounts reserved for payment of unemployment compensation.

"Reserved for retirement of indebtedness" – identifies amounts held by fiscal agents to fund future debt service obligations pertaining to the Commonwealth Fiscal Recovery Loan Act of 1990, and to Special Obligation Revenue Bonds authorized under Section 20 of Chapter 29 of the Massachusetts General Laws and Chapter 33, Acts of 1991. It is also reserved for specific continuing appropriation for debt service.

"Reserved for nonexpendable trusts" – identifies amounts being held by the Commonwealth on behalf of third parties for which only the interest can be expended.

"Reserved for capital projects" - identifies amounts reserved for capital projects.

**q. Total Columns – Memorandum Only -**

Total columns on the combined financial statements are captioned “Memorandum Only” to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present consolidated financial position, results of operations or cash flows. Interfund elimination’s have not been made in the aggregation of this data.

**r. Reclassifications -**

For the fiscal year ended June 30, 1997, certain reclassifications have been made to the 1996 balances to conform to the presentation used in 1997. Certain amounts in the separately issued Component Units financial statements has been reclassified to conform to the accounting classifications used by the Commonwealth.

**s. Future Adoption of Accounting Pronouncements -**

The GASB has issued two statements which the Commonwealth has not yet adopted and which require adoption in fiscal year 1998 as follows: Statement No. 31 “Accounting and Financial Reporting for Certain Investments and for External Investment Pools” and Statement No. 32 “Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans”.

The implication of these statements to the Commonwealth’s fiscal practices and financial reports is being evaluated.

**2. BUDGETARY CONTROL**

State finance law requires that a balanced budget be approved by the Governor and the Legislature. The Governor presents an annual budget to the Legislature which includes estimates of revenues and other financing sources and recommended expenditures and other financing uses. The Legislature, which has full authority to amend the budget, adopts an expenditure budget by appropriating monies at the individual appropriation account level in an annual appropriations act.

Before signing the appropriation act, the Governor may veto or reduce any specific item, subject to legislative override. Further changes to the budget established in the annual appropriations may be made via supplemental appropriations acts or other legislative acts. These must also be signed by the Governor and are subject to line item veto.

The majority of the Commonwealth’s appropriations are non-continuing accounts which lapse at the end of each fiscal year. Others are continuing accounts for which the Legislature has authorized that an unspent balance from the prior fiscal year be carried forward and made available for spending in the current fiscal year. In addition, the Legislature may direct that certain revenues be retained and made available for spending within an appropriation account.

Generally, expenditures may not exceed the level of spending authorized for an appropriation account. However, the Commonwealth is statutorily required to pay debt service, regardless of whether such amounts are appropriated. In addition, certain interfund assessments to allocate fringe benefits and other costs which are mandated by state finance law are not itemized in the appropriation process or separately budgeted. In addition, Massachusetts General Laws authorize the Secretary of Administration and Finance, with the approval of the Governor, upon determination that available revenues will be insufficient to meet authorized expenditures, to withhold allotment of appropriated funds which effectively reduce the account’s expenditure budget.

The original fiscal year 1997 appropriation act authorized approximately \$16,664,007,000 in direct appropriations and \$814,203,000 in authorizations to retain and expend certain non-tax revenues of which \$783,274,000 was estimated to be collected and expended plus \$99,230,000 of interagency chargebacks. The act also included estimates of \$12,188,000,000 in tax revenues and approximately \$5,152,000,000 in non-tax revenues. With these revenues (exclusive of chargebacks) projected to total approximately \$17,340,000,000, and with unreserved balances on a statutory basis of approximately \$134,044,000 carried forward from fiscal year 1996, the budget as presented in this original appropriation act was considered to be in balance.

During fiscal year 1997, the Legislature also passed and the Governor signed, with some modification through veto, several supplemental budgetary appropriations. These supplements added approximately \$136,808,000 in direct appropriations and \$2,445,000 in additional retained revenue authorizations.

Subsequent to June 30, 1997, the Legislature passed and the Governor signed, with modification through veto, approximately \$223,392,000 in additional supplemental appropriations, \$20,260,000 in additional retained revenue authorizations and \$50,000 in additional interagency chargebacks. The cumulative fiscal year 1997 appropriations, retained revenue and interagency

chargebacks totaled \$17,960,395,000. Appropriations continued from fiscal year 1996 totaled approximately \$240,773,000, and certain interfund transfers, directed by statute, totaled approximately \$1,029,216,000.

Because revenue budgets are not updated subsequent to the original appropriations act, the comparisons of the initial budgeted revenue to the subsequent, and often modified, expenditure budget can be misleading. Also, the financial statements portray fund accounting with gross inflows and outflows, thus creating a second variance, to separately published budget documents, portraying net inflows and outflows.

Line item appropriations are enacted for the General Fund and certain Special Revenue Fund activities. For these funds, a Combined Statement of Revenues, Expenditures and Changes in Fund Balances – Statutory Basis – Budget and Actual - General and Budgeted Special Revenue Funds is included. The Budgeted Special Revenue Funds include the Highway, Local Aid, Environmental, and Other budgeted funds.

The Office of the Comptroller has the responsibility to ensure that budgetary control is maintained on an individual line item appropriation account basis. Budgetary control is exercised through the State accounting system, Massachusetts Management Accounting and Reporting System (MMARS). Encumbrances and expenditures are not allowed to exceed the appropriation account total available spending authorization.

A MMARS report, internally identified as RPT226, is used by management and the Office of the Comptroller to monitor spending against budget. This report provides information at the individual line item appropriation account level, which is the legal level of budgetary control. For financial reporting, the Commonwealth groups these appropriation accounts by character and secretariat to conform to its organizational structure.

A reconciliation of the statutory basis budgeted funds to the GAAP basis General and Special Revenue funds presented in the financial statements is as follows (amounts in thousands):

	General Fund	Special Revenue
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses (statutory basis).....	\$ 615,870	\$ (394,832)
Entity differences:		
Deficiency of revenues and other financing sources over expenditures and other financing uses for Non-budgeted Special Revenue Funds.....	-	(26,006)
Perspective differences:		
Certain activities treated as Special Revenue Funds for statutory purposes are accounted for in the General Fund for GAAP.....	120,988	(120,988)
Basis of accounting differences:		
Net increase in taxes receivable.....	92,877	73,356
Net increase/(decrease) in due from federal government.....	(32,808)	502
Net increase/(decrease) in other receivables and other assets.....	224,684	(21,319)
Net increase in tax refunds and abatements payable.....	(7,723)	(5,428)
Net (increase) in accounts payable and other liabilities.....	(150,585)	(8,081)
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses (GAAP basis).....	\$ 863,303	\$ (502,796)

### 3. DEPOSITS AND INVESTMENTS

**Cash and Short-Term Investments** –The Commonwealth maintains a cash and short-term investment pool which is utilized by the Governmental and Fiduciary Fund types.

#### Primary Government -

As of June 30, 1997, the carrying amount of the Primary Government's total cash and cash equivalents were \$361,977,000 and the corresponding bank balances were \$557,432,000. Bank deposits in the amount of \$282,032,000 were insured by the Federal Deposit Insurance Corporation, \$120,408,000 were collateralized, and \$154,992,000 were uninsured and uncollateralized.

#### Component Units -

As of June 30, 1997, the carrying amount of the discretely presented Component Unit's total cash and cash equivalents were \$326,132,000, and the corresponding bank balances were \$315,088,000. Bank deposits of \$160,128,000 were insured by the Federal Deposit Insurance Corporation, \$6,015,000 were collateralized, and \$148,948,000 were uninsured and uncollateralized.

**Investments** – The Commonwealth maintains an investment pool, the Massachusetts Municipal Depository Trust (MMDT), that is available for use by all funds. The deposits and investments of the Component Units and the University and College Funds and the investments of the Pension Trust Funds are held separately from those of other Commonwealth funds, with the exception of their investments in MMDT.

Statutes authorize the Primary Government to invest in obligations of the U.S. Treasury, authorized bonds of all states, banker's acceptances, certificates of deposit, commercial paper rated within the three highest classifications established by Standard & Poors Corporation and Moody's Commercial Paper Record and repurchase agreements that any of these obligations secure. Investments in the MMDT are carried at cost, which approximates market. The Pension Trust Funds are permitted to make investments in equity securities, fixed income securities, real estate and other alternative investments. In the following table, these alternative

investments, venture capital and futures pools are classified as other investments. The investment policies of the Component Units are the same as the Primary Government's, except that they permit investment in equity securities.

Short-term investments and investments are classified as to collateral risk into the following three categories:

Category 1: Insured or registered, or securities held by the Commonwealth or its agent in the Commonwealth's name.

Category 2: Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the Commonwealth's name.

Category 3: Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the Commonwealth's name.

**Primary Government** – Investments of the Primary Government at June 30, 1997, are as follows (amounts in thousands):

	Carrying Amount			Total	Market Value
	Category 1	Category 2	Category 3		
<u>Investment</u>					
Repurchase agreements.....	\$ 906,299	\$ -	\$ 5,976	\$ 912,275	\$ 912,275
U.S. Treasury obligations.....	914,992	7,685	135,930	1,058,607	1,059,327
Commercial paper.....	1,192,884	-	-	1,192,884	1,192,884
Government obligations.....	2,044,715	17,001	86,200	2,147,916	2,147,805
Equity securities.....	13,373,159	3,992	27,975	13,405,126	13,405,772
Fixed income securities.....	2,200,447	1,897	82,436	2,284,780	2,284,789
Asset backed investments.....	3,928	-	-	3,928	3,928
Notes.....	333,296	-	-	333,296	333,296
Other.....	109,593	3,963	1,004	114,560	114,560
	<u>\$ 21,079,313</u>	<u>\$ 34,538</u>	<u>\$ 339,521</u>	21,453,372	21,454,636
Money market investments				876,127	876,127
Mutual fund investments				41,480	41,480
Deferred compensation plan mutual funds				1,837,892	1,837,892
Annuity contracts				1,285,021	1,285,021
Eurodollar contracts				14,015	14,015
Real estate				754,309	754,309
Assets held in trust				1,759,068	1,759,068
Deposits with U.S. Treasury				1,222,725	1,222,725
Certificate of deposits				4,382	4,382
Other				786,970	786,970
Total				<u>\$ 30,035,361</u>	<u>\$ 30,036,625</u>

Following is a reconciliation of investments as summarized above to the balance as recorded in the combined balance sheet (amounts in thousands):

Investments as summarized above.....	\$ 30,035,361
Less:	
Short-term investments reported in the combined balance sheet as cash and short-term investments.....	3,688,891
Restrictive investments reported separately in the combined balance sheet.....	223,219
Deferred compensation plan mutual funds reported separately in the combined balance sheet.....	1,837,892
Assets held in trust reported separately in the combined balance sheet.....	1,759,068
Annuity contracts reported separately in the combined balance sheet.....	1,285,021
Deposits reported separately in the combined balance sheet.....	1,334,988
Investments as reported on the combined balance sheet.....	<u>\$ 19,906,282</u>

Following is a reconciliation of the balance of cash and short-term investments at June 30, 1997 (amounts in thousands):

Carrying amount of cash and cash equivalents.....	\$ 361,977
Cash with fiscal agent.....	(24,823)
Short-term investments.....	<u>3,688,891</u>
Cash and short-term investments as reported on the combined balance sheet.....	<u>\$ 4,026,045</u>

**Financial Investments with Off-Balance Sheet Risk –**

Certain investments of the Commonwealth may involve a degree of risk not accounted for on the respective financial statements. A description of such “off-balance sheet risks” is as follows.

**Forward Currency Contracts** – The Pension Trust Funds enter into forward currency contracts to hedge the exposure to changes in foreign currency exchange rates on foreign portfolio holdings. The market value of the contract will fluctuate with changes in currency exchange rates.

The contract is marked-to-market daily and the change in market value is recorded by the fund as an unrealized gain or loss by the Pension Trust Fund.

When the contract is closed, the Pension Trust Funds record a realized gain or loss equal to the difference between the value of the contract at the time it was opened and the value at the time it was closed. The maximum potential loss from such contract is the aggregate face value in U.S. dollars at the time the contract was opened.

**Futures Contracts** – The Pension Trust Funds may purchase and sell financial futures contracts to hedge against changes in the values of securities the fund owes or expects to purchase. Upon entering such contracts, they must pledge to the broker an amount of cash or securities equal to the minimum “initial margin” requirements of the future.

The potential risk is that the change in the value of futures contracts primarily corresponds with the value of underlying instruments which may not correspond to the change in value of the hedged instruments. In addition, there is a risk that PRIT may not be able to close out its futures positions due to an a non-liquid secondary market. Risks may arise from the potential inability of a counterparty to meet the terms of a contract and from unanticipated movements in the value of a foreign currency relative to the U.S. dollar. The Pension Trust Funds may also invest in financial futures contracts for non-hedging purposes.

Payments are made or received by the Pension Trust Funds each day, depending on the daily fluctuations in the value of the underlying security, and are recorded as unrealized gains or losses. When the contracts are closed, the Pension Trust Funds recognize a realized gain or loss. The notional value of the futures contracts at June 30, 1997 for the Pension Trust Funds amount to approximately \$187,759,000 with unrealized loss of approximately \$132,000.

**Options** – PRIT is also engaged in selling or “writing” options. The Pension Trust Funds, as writers of options, may have no control over whether the underlying securities may be sold (call) or purchased (put) and, as a result, bears the market risk of an unfavorable change in the price of the security underlying the written option. As of June 30, 1997, there were no material options outstanding.

**Component Units** – Investments of the discretely presented Component Units at June 30, 1997, are as follows (amounts in thousands):

	Carrying Amount			Total	Market Value
	Category 1	Category 2	Category 3		
<u>Investment</u>					
Repurchase agreements.....	\$ 16,903	\$ -	\$ 169,491	\$ 186,394	\$ 186,425
U.S. Treasury obligations....	4,907	-	68,470	73,377	73,329
Commercial paper.....	171,064	29,888	-	200,952	200,977
Government obligations.....	58,778	21,884	14,503	95,165	96,275
Equity securities.....	-	-	1,015	1,015	1,015
Notes.....	58,383	-	6,893	65,276	65,276
Other.....	19,038	-	7,479	26,517	26,523
	<u>\$329,073</u>	<u>\$51,772</u>	<u>\$ 267,851</u>	648,696	649,820
Money market investments				10,856	10,856
Mutual fund investments				110	110
Deferred compensation plan mutual funds				15,943	15,943
Assets held in trust				4,661	4,661
Guaranteed investment contracts				524,473	524,473
Certificate of deposits				<u>6,578</u>	<u>6,578</u>
Total				<u>\$ 1,211,317</u>	<u>\$ 1,212,441</u>

Following is a reconciliation of investments summarized above to the balance as recorded in the combined balance sheet (amounts in thousands):

Investments as summarized above.....	\$ 1,211,317
Less:	
Short-term investments reported in the combined balance sheet as cash and short-term investments.....	509,345
Restricted investments reported separately in the combined balance sheet.....	261,576
Deferred compensation plan mutual funds reported separately in the combined balance sheet.....	15,943
Assets held in trust reported separately on the combined balance sheet.....	<u>4,661</u>
Investments as reported on the combined balance sheet.....	<u>\$ 419,792</u>

Following is a reconciliation of the balance of cash and short-term investments at June 30, 1997 (amounts in thousands):

Carrying amount of cash and cash equivalents.....	\$ 326,132
Short-term investments reported as investments for GASB 3 disclosure purposes but reported in the combined balance sheet as Cash and short-term investments.....	<u>509,345</u>
Cash and short-term investments as reported on the combined balance sheet.....	<u>\$ 835,477</u>

**4. RECEIVABLES**

Taxes, federal reimbursements, loans and other receivables are presented in the various funds as follows (amounts in thousands):

**Primary Government –**

	<u>Taxes</u>	<u>Due from Federal Government</u>	<u>Loans</u>	<u>Other</u>	<u>Allowance for Uncollectibles</u>	<u>Net Receivable</u>
General Fund.....	\$ 1,037,380	\$ 693,955	\$ -	\$ 712,051	\$ (811,820)	\$ 1,631,566
Special Revenue Funds...	728,973	162,702	-	134,608	(216,425)	809,858
Capital Projects Funds.....	-	165,527	-	212	(79)	165,660
Trust and Agency.....	392,614	3,590	2,943	313,724	(106,017)	606,854
University and College Fund.....	-	23,182	54,827	183,809	(40,313)	221,505
Subtotal.....	2,158,967	1,048,956	57,770	1,344,404	<u>\$(1,174,654)</u>	3,435,443
Less: Allowance for uncollectibles .....	<u>(484,969)</u>	<u>(21,699)</u>	<u>(6,242)</u>	<u>(661,744)</u>		
Net receivable.....	<u>\$ 1,673,998</u>	<u>\$ 1,027,257</u>	<u>\$ 51,528</u>	<u>\$ 682,660</u>		<u>\$ 3,435,443</u>

**Component Units –**

	<u>Due from Federal Government</u>	<u>Loans</u>	<u>Other</u>	<u>Allowance for Uncollectibles</u>	<u>Net Receivable</u>
MBTA.....	\$ -	\$ -	\$50,072	\$ -	\$ 50,072
MTA.....	-	-	4,376	-	4,376
Regional Transit Authorities.....	6,139	-	7,293	(36)	13,396
MWPAT.....	-	857,294	18,726	-	876,020
MCCA.....	-	-	862	(94)	768
Economic Development.....	<u>22,790</u>	<u>193,268</u>	<u>7,588</u>	<u>(7,421)</u>	<u>216,225</u>
Subtotal.....	28,929	1,050,562	88,917	<u>\$ (7,551)</u>	1,160,857
Less: Allowance for uncollectibles	<u>-</u>	<u>(7,421)</u>	<u>(130)</u>		
Net receivable.....	<u>\$ 28,929</u>	<u>\$ 1,043,141</u>	<u>\$88,787</u>		<u>\$ 1,160,857</u>



**5. RECEIVABLES AND PAYABLES BETWEEN FUNDS AND COMPONENT UNITS**

Receivables and payables between funds and component units at June 30, 1997 are summarized as follows (amounts in thousands):

<b>Primary Government:</b>			<b>Component Units:</b>		
	<u>Due from</u>	<u>Due to</u>		<u>Due from</u>	<u>Due to</u>
General Fund:			General Fund:		
Special Revenue Funds:			MBTA.....	\$ 2,109	\$ -
Federal grants.....	\$ 19,479	\$ -	RTAs.....	-	33,102
Local aid.....	1,185,884	-	MCCA.....	-	17,966
Capital Projects Funds:			Economic Development Authorities..	3,750	335
General.....	62,568	-	Subtotal.....	5,859	51,403
Capital Investment Trust.....	-	229,800			
Highway.....	82,903	-	Special Revenue Funds:		
Local Aid.....	49,769	-	MBTA.....	-	234,639
Other.....	386	-	RTAs.....	-	25,785
Trust and Agency Funds:			MWPAT.....	-	20,200
Pension Trust.....	3,657	-	Economic Development Authorities..	-	4,044
University and College Fund:			Subtotal.....	-	284,668
Current - Unrestricted.....	5,576	-			
Subtotal.....	1,410,222	229,800	Capital Projects Funds:		
			Economic Development Authorities..	-	27
Special Revenue Funds:			Subtotal.....	-	27
General Fund.....	-	1,205,363			
Subtotal.....	-	1,205,363	MBTA:		
			General Fund.....	-	2,109
Capital Projects Funds:			Special Revenue Funds:		
General Fund.....	229,800	195,626	Highway.....	78,213	-
Capital Projects Funds:			Local Aid.....	156,426	-
Highway.....	20,018	-	Subtotal.....	234,639	2,109
Federal Highway Construction.....	-	20,018			
Subtotal.....	249,818	215,644	RTAs:		
			General Fund.....	33,102	-
Internal Service Funds:			Special Revenue Funds:		
University and College Funds:			Highway.....	8,595	-
Current - unrestricted.....	35,400	-	Local Aid.....	17,190	-
Subtotal.....	35,400	-	Subtotal.....	58,887	-
Fiduciary Funds:			MWPAT:		
General Fund.....	-	3,657	Special Revenue Funds:		
Subtotal.....	-	3,657	Local Aid.....	20,200	-
			Subtotal.....	20,200	-
University and College Fund:					
General Fund.....	-	5,576	MCCA:		
Internal Services Funds:			General Fund.....	17,966	-
Employees workers' compensation...	-	35,400	Subtotal.....	17,966	-
University and College Fund:					
Current - unrestricted.....	19,747	53,458	Economic Development Authorities:		
Current - restricted.....	39,352	-	General Fund.....	335	3,750
Loan.....	306	2	Special Revenue Funds:		
Endowment.....	-	11,087	Other.....	4,044	-
Plant.....	8,293	3,151	Capital Projects Funds:		
Subtotal.....	67,698	108,674	General.....	27	-
			Subtotal.....	4,406	3,750
Total Primary Government.....	\$1,763,138	\$ 1,763,138			
			Total Component Units.....	\$341,957	\$341,957

**6. FIXED ASSETS****Primary Government-**

**General Fixed Asset Account Group** – Changes in general fixed assets by category at June 30, 1997 are as follows (amounts in thousands):

	Balance at July 1, 1996	Additions	Retirements	Balance at June 30, 1997
Land.....	\$ 489,693	\$ 32,499	\$ 175	\$ 522,017
Buildings.....	2,352,196	32,087	9,833	2,374,450
Machinery and equipment...	441,117	166,793	96,684	511,226
Construction in progress.....	34,610	63,568	-	98,178
Total.....	<u>\$ 3,317,616</u>	<u>\$ 294,947</u>	<u>\$ 106,692</u>	<u>\$ 3,505,871</u>

**University and College Fund Type** – Fixed assets consist of the following at June 30, 1997 (amounts in thousands):

	Amount
Land.....	\$ 52,420
Buildings.....	1,819,934
Machinery and equipment.....	686,349
Construction in progress.....	<u>30,886</u>
	2,589,589
Less: accumulated depreciation.....	<u>(178,881)</u>
Total.....	<u>\$ 2,410,708</u>

**Component Units** – Fixed assets consist of the following at June 30, 1997 (amounts in thousands):

	Amount
Land and improvements.....	\$ 347,089
Infrastructure.....	1,006,682
Structures and improvements.....	4,930,389
Equipment, furniture, fixtures and vehicles.....	<u>1,764,389</u>
Total.....	8,048,549
Less accumulated depreciation.....	<u>(2,198,934)</u>
Net fixed assets.....	5,849,615
Construction in progress.....	<u>1,057,286</u>
Total.....	<u>\$ 6,906,901</u>

**7. SHORT-TERM FINANCING AND CREDIT AGREEMENTS****Primary Government -**

The Massachusetts General Laws authorize the Treasurer to issue temporary notes in anticipation of revenue or bond financing. When this short-term debt does not meet long-term refinancing criteria, it is classified among fund liabilities.

**General Fund** – The Commonwealth is authorized by Massachusetts General Laws to issue short-term notes to finance working capital advances to the MBTA. The Commonwealth retires these notes through subsequent appropriations and assessments to cities and towns. There were no such notes outstanding at June 30, 1997.

The balance of revenue anticipation notes (RANs) fluctuates during the fiscal year but must be reduced to zero at June 30. During fiscal year 1997, there were no RANs issued or outstanding.

**Capital Projects Funds** – The Commonwealth may issue bond anticipation notes (BANs) to temporarily finance its capital projects, but it must reduce the balance to \$200,000,000 at June 30. During fiscal year 1997, there were no BANs issued or outstanding.

The Commonwealth is authorized to sell up to \$1,000,000,000 in Grant Anticipation Notes (GANS) in anticipation of receipt of federal funds related to Central Artery/Third Harbor Tunnel projects. During fiscal year 1997, there were no GANS issued or outstanding.

**Letter-of-Credit Agreements** – During fiscal year 1997, the Commonwealth maintained letter-of-credit agreements with several banks in order to provide credit and liquidity support for its commercial paper program. The letters of credit were available to secure up to \$400,000,000 of Commonwealth commercial paper plus interest thereon. Advances were available, subject to certain limitations and bearing interest at the bank rate as defined, in anticipation of revenue or bond proceeds and repayable by the following June 30, subject to extension in certain circumstances, at the Commonwealth's option. No such advances were drawn during fiscal year ended 1997, or subsequent thereto. These agreements expire October 31, 1997 through September 1, 1998. The average costs are approximately 0.07 % on unutilized amounts and approximately 0.10% on utilized amounts.

**Line-of-Credit Agreement** – During fiscal year 1997, the Commonwealth maintained a line of credit with a bank to provide liquidity support for up to \$200,000,000 of

commercial paper notes. The line of credit expires September 30, 1999. The average costs of all lines of credit are approximately 0.06% on unutilized amounts and approximately 0.08% on utilized amounts.

#### ***Component Units -***

MBTA short-term notes payable outstanding at June 30, 1997 totaled \$325,000,000. Of this amount, \$160,000,000 is due September 5, 1997 with an interest rate of 4.75% and \$165,000,000 will mature on February 27, 1998 with an interest rate of 4.25%.

The MBTA also issued commercial paper to act as financing for capital expenditures. At June 30, 1997, \$43,500,000 of this commercial paper was outstanding.

Subsequent to June 30, 1997, the MBTA issued \$160,000,000 of notes carrying an interest rate of 4.50%. The notes mature on September 5, 1998.

The Commonwealth Zoological Corporation had \$845,000 of short-term notes payable outstanding at June 30, 1997. The notes have an interest rate of 9.50% and were due August 31, 1997.

The RTAs had \$69,446,000 of short-term notes payable outstanding at June 30, 1997. All notes mature during fiscal year 1998 and have interest rates ranging from 3.89% to 4.95%.

Subsequent to June 30, 1997, the RTAs rolled over \$37,219,000 of revenue anticipation notes with interest rates ranging from 3.97% to 4.35% due in 1998.

## **8. LONG-TERM DEBT**

Under the Constitution of the Commonwealth of Massachusetts, the Commonwealth may borrow money (a) for defense, (b) in anticipation of receipts from taxes or other financing sources, any such loan to be paid out of the revenue of the year in which the loan is made, or (c) by a two-thirds vote of the members of each house of the Legislature present and voting thereon. In addition, the Commonwealth may give, loan or pledge its credit by a two-thirds vote of the members of each house of the Legislature present and voting thereon, but such credit may not in any manner be given or loaned to or in aid of any individual, or of any private association, or of any corporation which is privately owned or managed.

The Constitution further provides that borrowed money shall not be expended for any other purpose than that for which it was borrowed or for the reduction or discharge of the principal of the loan.

The Commonwealth has waived its sovereign immunity and consented to be sued on contractual obligations, including bonds and notes issued by it and all claims with respect thereto. However, the property of the Commonwealth is not subject to attachment or levy to pay a judgment, and the satisfaction of any judgment generally requires legislative appropriation. Enforcement of a claim for the payment of principal or interest on bonds and notes of the Commonwealth may also be subject to the provisions of federal or Commonwealth statutes, if any, enacted to extend the time for payment or impose other constraints upon enforcement.

As of June 30, 1997, the Commonwealth had four types of bonds outstanding: general obligation, dedicated income tax, college opportunity and special obligation. The general obligation bonds are authorized and issued primarily to provide funds for Commonwealth-owned capital projects and local government improvements. They are backed by the full faith and credit of the Commonwealth and paid from the Governmental Funds, in which debt service principal and interest payments are appropriated. Massachusetts General Laws provide for the allocation of bond proceeds to these authorizations in arrears, as expenditures are made, unless the proceeds are allocated at the time of issuance.

The dedicated income tax bonds relate entirely to the deficit financing authorization of fiscal year 1990. As a remedy to that financial situation, the Legislature authorized bonds, to be repaid from tax revenues within seven years.

The Commonwealth issues college opportunity bonds as authorized by the Massachusetts General Laws. These bonds are backed by the full faith and credit of the Commonwealth. At June 30, 1997, the Commonwealth has outstanding \$79,508,000 of such college opportunity bonds. Included in this amount is approximately \$34,598,000 of accrued interest.

The Commonwealth also issues special obligation revenue bonds as authorized under Massachusetts General Laws. Such bonds may be secured by all or a portion of revenues credited to the Highway Fund and are not

general obligations of the Commonwealth. At June 30, 1997, the Commonwealth had outstanding \$520,760,000 of such bonds, secured by a pledge of 6.86 cents of the 21 cent per gallon motor fuel excise tax collected on gasoline.

For financial reporting purposes, long-term bonds are carried at their face amount, which includes discount and any issuance costs financed. The outstanding amount represents the total principal to be repaid. For capital appreciation bonds, the outstanding amount represents total principal and interest to be repaid. When short-term debt has been refinanced on a long-term basis, it is reported as outstanding at its face amount.

The amount of bonds authorized but unissued is measured in accordance with Commonwealth statutes. Only the net proceeds of bonds (exclusive of discount and costs of issuance) are deducted from the total authorized by the Legislature.

General obligation, dedicated income tax, college opportunity, and special obligation long-term bonds outstanding (including discount and issuance costs) and bonds authorized-unissued at June 30, 1997, are as follows (amounts in thousands):

<u>Purpose</u>	<u>Outstanding Amount</u>	<u>Maturities</u>	<u>Authorized - Unissued</u>
Deficit reduction:			
Fiscal recovery.....	\$ 129,900	1997-1998	\$ 57,274
Capital projects:			
General .....	4,996,155	1997-2025	4,912,029
Highway.....	3,668,189	1997-2016	6,143,163
Local aid.....	1,414,517	1997-2015	699,855
Other.....	62,533	1997-2025	141,821
Capital projects debt....	10,141,394		11,896,868
Total.....	\$ 10,271,294		\$ 11,954,142

Interest rates on the Commonwealth's bonded debt outstanding at June 30, 1997 ranged from 0.10% to 14.13%.

Changes in long-term bonds outstanding (including discount and issuance costs) and bonds authorized - unissued for the year ended June 30, 1997, are as follows (amounts in thousands):

	<u>Bonds Outstanding</u>	<u>Authorized - Unissued</u>
Balance, July 1, 1996.....	\$ 10,065,578	\$ 8,182,843
General and Special obligation bonds:		
Principal less discount and issuance costs.....	899,471	(899,471)
Discount and issuance costs.....	33,843	-
General obligation refunding bonds:		
Principal of bonds issued .....	722,621	-
Refunded bonds.....	(697,550)	-
Increase in bonds authorized.....	-	4,707,040
Bonds retired.....	(752,669)	-
Expiration of authorizations.....	-	(36,270)
Balance, June 30, 1997.....	\$ 10,271,294	\$ 11,954,142

At June 30, 1997, debt service requirements to maturity for principal (including discount, capital appreciation and issuance costs) and interest are as follows (amounts in thousands):

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
1998.....	\$ 703,716	\$ 507,223	\$ 1,210,939
1999.....	635,187	469,489	1,104,676
2000.....	640,604	433,328	1,073,932
2001.....	658,470	401,017	1,059,487
2002.....	622,911	367,431	990,342
2003 and thereafter...	7,010,406	2,210,459	9,220,865
Total.....	\$ 10,271,294	\$ 4,388,947	\$ 14,660,241

The Commonwealth issued bonds and notes under negotiated contracts and under competitive bidding contracts during fiscal year 1997. The costs for legal counsel and underwriting fees under competitive bond sale costs were estimated at \$152,000 and \$2,239,000, respectively. Negotiated legal fees and underwriter fees were estimated at \$97,000 and \$4,668,000 respectively.

Subsequent to June 30, 1997, the Commonwealth issued \$19,902,000 in college opportunity bonds with variable interest rates, \$250,000,000 in general obligation bonds with interest rates ranging from 5.00% to 5.75%, \$375,840,000 in general obligation refunding bonds with interest rates ranging from 4.50% to 5.75%, \$271,280,000 in general obligation refunding bonds with variable interest rates and \$294,695,000 in special obligation bonds with interest rates ranging from 3.75% to 5.50%, which included \$191,080,000 in special obligation refunding bonds and \$103,615,000 in new issue special obligation bonds.

**Statutory Debt Limit** –The Massachusetts General Laws establish limits on the amount of direct debt outstanding. By statutorily limiting the Commonwealth's ability to issue direct debt, this limit provides a control on annual

capital spending. The direct debt limit for fiscal year 1997 was \$9,112,650,000. The limit increases 5% per year.

For purposes of determining compliance with the limit, outstanding direct debt is defined to include general obligation bonds and minibonds at the amount of their original net proceeds. It excludes bond anticipation notes and discount and issuance costs, if any, financed by these bonds. It also excludes dedicated income tax bonds, special obligation bonds, refunded bonds, and certain refunding bonds. Outstanding direct debt, as defined, totaled approximately \$8,752,333,000 at June 30, 1997.

The amounts excluded from the limits are as follows (amounts in thousands):

	<u>Bonds Outstanding</u>
Balance, June 30, 1997.....	\$ 10,271,294
Less amounts excluded:	
Discount and Issuance Cost.....	(735,393)
Fiscal Recovery Principal.....	(126,470)
Chapter 5 of the Acts of 1992 Refunding....	(144,509)
Special Obligation Principal.....	<u>(512,589)</u>
Outstanding Direct Debt.....	<u>\$ 8,752,333</u>

**Advance Refunding and Defeased Bonds** - As authorized by the Massachusetts General Laws, the Commonwealth advance refunded certain general obligation and other bonds through the issuance of \$722,621,000 of general obligation refunding bonds during fiscal year 1997. Proceeds totaling approximately \$741,997,000, including bond premiums, were used to purchase U.S. Government securities which were deposited in irrevocable trusts with an escrow agent to provide for all future debt service payments of the refunded bonds. As a result, the refunded bonds are considered to be defeased, and the liabilities therefore have been removed from the General Long-term Obligations Account Group. As a result of these

advance refundings, the Commonwealth decreased current year debt service payments and has taken advantage of lower interest rates, and it has decreased its aggregate debt service payments by approximately \$35,926,000 over the next 20 years and will experience an economic gain (the difference between the present values of the debt service payments of the refunded and refunding bonds) of approximately \$30,074,000. At June 30, 1997, approximately \$665,955,000 of the bonds refunded remain outstanding and are considered defeased.

In prior years, the Commonwealth also defeased certain general obligation and other bonds by placing the proceeds of refunding bonds in irrevocable trusts to provide for all future debt service payments on the refunded bonds. Accordingly, the trust account assets and the liabilities for the defeased bonds are not included in the financial statements. At June 30, 1997, approximately \$2,701,874,000 of bonds outstanding from advance refundings in prior fiscal years are considered defeased.

**Changes in General Long-term Obligations** - The Commonwealth records its liability for long-term bonds in the General Long-term Obligations Account Group. Other general long-term obligations recognized by the Commonwealth are its obligations under capital lease agreements (Note 12), school construction grants to partially reimburse cities and towns for their debt service payments on bonds issued to finance construction of local or regional schools, compensated absences, claims judgments and lottery prizes payable (Note 1). These liabilities will be liquidated in the future from governmental funds.

**General Long Term Debt Obligations Account Group** - During the year ended June 30, 1997, the following changes occurred in liabilities reported in the General Long-term Obligations Account Group (amounts in thousands):

	Balance July 1, 1996	Bond Issuances	Bond Discount	Bond Principal Payments	Other Net Increase (Decrease)	Balance June 30, 1997
Long-term Bonds.....	\$ 10,065,578	\$ 1,622,092	\$ 33,843	\$ (1,450,219)	\$ -	\$ 10,271,294
Capital Leases.....	59,022	-	-	-	28,149	87,171
School Construction Grants.....	3,053,799	-	-	-	480,818	3,534,617
Compensated Absences.....	97,225	-	-	-	9,177	106,402
Claims, Judgements, and Other.....	85,040	-	-	-	(8,508)	76,532
Lottery Prizes Payable.....	1,632	-	-	-	1,934	3,566
Total.....	<u>\$ 13,362,296</u>	<u>\$ 1,622,092</u>	<u>\$ 33,843</u>	<u>\$ (1,450,219)</u>	<u>\$ 511,570</u>	<u>\$ 14,079,582</u>

**University and College Fund** – Building authorities related to the University of Massachusetts and the state colleges have issued bonds for construction of higher education facilities and equipment. Such bonds are guaranteed by the Commonwealth in an aggregate amount not to exceed \$182,000,000. The bond agreements generally provide that revenues from student fees are pledged as collateral on the bonds and establish bond reserve funds, bond funds, and maintenance reserve funds. The University of Massachusetts and state colleges have also entered into various loan agreements as a participant in the Massachusetts Health and Educational Facilities Authority's (MHEFA) ongoing capital asset program to finance construction projects and equipment.

University and College Fund long-term debt outstanding at June 30, 1997 was as follows (amounts in thousands):

Purpose	Interest Rates	Amount	Maturity Dates
MHEFA capital asset program...	Variable	\$ 64,661	1997-2023
Building authorities and state colleges.....	3.0%-12.0%	<u>252,078</u>	1997-2024
		<u>\$ 316,739</u>	

Maturities of principal are as follows (amounts in thousands):

Years Ending June 30,	Amount
1998.....	\$ 12,168
1999.....	12,947
2000.....	13,516
2001.....	14,316
2002.....	15,005
2003 and thereafter.....	<u>248,787</u>
Total.....	<u>\$ 316,739</u>

Changes in bonds outstanding reported in the University and College Fund Type are as follows (amounts in thousands):

	Amount
Balance, July 1, 1996, as restated.....	\$ 310,178
Principal less issuance and discount cost.....	17,154
Bonds retired, net of amortization of discount..	<u>(10,593)</u>
Balance, June 30, 1997.....	<u>\$ 316,739</u>

At June 30, 1997, approximately \$161,533,000 outstanding of bonds from prior advance refunding of the University and College Fund building authorities are considered defeased.

#### Component Units –

Bonds and notes outstanding at June 30, 1997 (December 31, 1996 for Massachusetts Turnpike Authority) net of unamortized discount of \$57,543,000 and unamortized deferred loss on refunding of \$125,795,000 are as follows (amounts in thousands):

Purpose	Interest Rates	Amount	Maturity Dates
MBTA:			
General transportation system.....	3.73% - 7.53%	\$2,881,705	2005 - 2027
Boston Metropolitan District.....	4.56 - 7.08	41,799	2002 - 2025
MTA:			
Revenue serial bonds.....	4.00 - 5.125	351,089	1998 - 2023
Guaranteed Bond.....	-	253,097	1999
MCCA:			
Current interest serial bonds.....	4.00 - 6.00	77,732	1997 - 2008
Compound interest serial bonds..	5.375 - 6.80	58,178	2000 - 2013
MWPAT:			
Serial bonds.....	2.00 - 6.25	752,295	1997 - 2015
Term bonds.....	5.25 - 6.375	110,725	2013 - 2015
Economic Development:			
Notes payable.....	2.80 - 11.00	<u>107,094</u>	1997 - 2017
Total.....		<u>\$4,633,714</u>	

The amounts below represent the face amount of bonds and notes outstanding and may differ from the amounts included in the combined balance sheet due to treatment of original issue discount in the general purpose financial statements.

Maturities of principal are as follows (amounts in thousands):

<u>Years Ending,</u>	<u>MBTA</u>	<u>MTA</u>	<u>RTAs</u>	<u>MWPAT</u>	<u>MCCA</u>	<u>Economic Development</u>	<u>Total</u>
1998.....	\$ 93,327	\$ -	\$ -	\$ 37,645	\$ 20,195	\$ 19,192	\$ 170,359
1999.....	97,134	7,400	-	35,880	21,375	9,174	170,963
2000.....	101,072	267,010	-	37,900	22,670	10,586	439,238
2001.....	104,986	8,020	-	39,570	14,234	19,727	186,537
2002.....	106,849	8,370	-	41,040	11,054	11,125	178,438
2003 and thereafter.....	<u>2,582,246</u>	<u>334,070</u>	<u>-</u>	<u>670,985</u>	<u>46,926</u>	<u>37,290</u>	<u>3,671,517</u>
Total.....	<u>\$3,085,614</u>	<u>\$ 624,870</u>	<u>\$ -</u>	<u>\$863,020</u>	<u>\$136,454</u>	<u>\$ 107,094</u>	<u>\$4,817,052</u>

During the fiscal year ended June 30, 1997 (December 31, 1996 for Massachusetts Turnpike Authority) the

following changes occurred in bonds and notes payable reported in the Component Units (amounts in thousands):

	<u>MBTA</u>	<u>MTA</u>	<u>RTAs</u>	<u>MWPAT</u>	<u>MCCA</u>	<u>Economic Development</u>	<u>Total</u>
Balance, July 1, 1996.....	\$ 2,614,076	\$ 410,885	\$ 15	\$ 512,000	\$ 154,976	\$ 82,946	\$ 3,774,898
Principal less discount issuance costs.....	383,796	264,770	-	376,405	-	31,487	1,056,458
Debt retired, net of amortization of discount.....	(65,981)	(61,296)	(15)	(25,385)	(19,066)	(7,339)	(179,082)
Deferred loss on refunding...	<u>(8,387)</u>	<u>(10,173)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(18,560)</u>
Balance, June 30, 1997.....	<u>\$ 2,923,504</u>	<u>\$ 604,186</u>	<u>\$ -</u>	<u>\$863,020</u>	<u>\$135,910</u>	<u>\$ 107,094</u>	<u>\$ 4,633,714</u>

The MBTA issued certificates of participation in the amounts of \$28,565,000 on December 15, 1988 and \$85,795,000 on August 30, 1990 to finance the purchase of commuter rail coaches. Under the terms of the applicable agreements, the MBTA's obligation to make the annual payments on the certificates is subject to the Commonwealth's appropriation of necessary funds in its annual budget. The certificates bear interest at rates ranging from 7.30% to 7.80% and mature as follows (amounts in thousands):

<u>Year Ending June 30,</u>	<u>Amount</u>
1998.....	\$ 1,150
1999.....	1,150
2000.....	1,150
2001.....	1,150
2002.....	1,140
2003 and thereafter.....	<u>13,625</u>
Total.....	<u>\$ 19,365</u>

In prior years, the MBTA defeased in-substance several General Transportation System Bonds by placing the proceeds of new bonds in an irrevocable trust fund to provide for future debt service payments on the old debt. These payments began in 1995. Accordingly, the trust account asset and the liability for the defeased bonds are not included in the accompanying financial statements. On June 30, 1997, \$1,169,430,000 of these bonds outstanding are considered defeased.

Subsequent to June 30, 1997, the MBTA issued \$200,000,000 in general obligation bonds with interest rates ranging from 4.00% to 5.75%.

The legislation under which the MBTA was established provides that if, at any time, the MBTA is unable to meet any interest or principal payments due on its debt, sufficient funds will be remitted by the Commonwealth to meet such obligations.

On January 15, 1996, the Massachusetts Turnpike Authority issued \$259,315,000 of Guaranteed Bond Anticipation Notes to finance the \$100,000,000 payment for the acquisition of the Ted Williams Tunnel, as well as to advance refund outstanding MIFA Tunnel Revenue Bonds, in order to finance a portion of the cost of certain repairs and improvements to the Summer and Callahan Tunnels and to fund certain start up costs associated with opening and operating the Ted Williams Tunnel. The notes are unconditionally guaranteed by the Commonwealth. The notes mature on June 1, 1999, and are anticipated to be repaid by the Authority with the

proceeds from bonds secured by the revenues of the Sumner-Callahan-Williams Tunnel to be issued in the future.

In January 1996, approximately \$56,573,000 of the net proceeds from the issuance of Guaranteed Bond Anticipation Notes were used to purchase U. S. Government securities which were deposited in an irrevocable trust with an escrow agent to provide all future debt service payments on refunded bonds. As a result, the refunded bonds were considered to be defeased and the liability has been removed from the balance sheet. The advance refunding resulted in an economic gain of approximately \$13,000,000 and the MTA has reduced their debt service payments over the next 25 years by approximately \$48,000,000. At December 31, 1996, approximately \$44,400,000 of the refunded bonds remain outstanding.

Subsequent to June 30, 1997, the MTA issued a \$1,764,383,000 in special obligation bonds with interest rates ranging from 5.00% to 5.65%. The bonds included \$297,520,000 Western Turnpike revenue bonds and \$1,466,863,000 Metropolitan Highway System revenue bonds. These bonds are the obligations of the MTA. The Commonwealth is not obligated to make payments on the bonds nor are the bonds pledged by the faith or credit of the Commonwealth.

On February 22, 1995, Pioneer Valley Transit Authority (PVTa) issued certificates of participation of \$9,930,000 to finance the purchase of buses. Under the terms of the agreement, PVTa is obligated to make annual payments on the certificates subject to the Commonwealth's appropriating the necessary funds in the Authority's annual budget.

The certificates bear interest rates ranging from 5.0% to 5.7% and mature as follows (amounts in thousands):

<u>Year Ending June 30,</u>	<u>Amount</u>
1998.....	\$ 1,240
1999.....	1,240
2000.....	1,240
2001.....	1,240
2002.....	1,240
2003.....	<u>1,240</u>
Total.....	<u>\$ 7,440</u>

The amounts in the table above differ from the amounts included in the balance sheet due to treatment of unamortized discounts of \$35,000.



Subsequent to June 30, 1997, the GLB issued \$80,000,000 in special obligation bonds with interest rates ranging from 5.25% to 6.80%. The bonds included \$60,000,000 taxable bonds and \$20,000,000 tax-exempt bonds. The GLB and the Commonwealth have entered into a contract providing that the Commonwealth shall pay the contract assistance to the GLB with respect to debt service on the bonds in amounts equal to the principal and interest requirements on the bonds as they come due and the full faith and credit of the Commonwealth are pledged to make such payments.

## 9. INDIVIDUAL FUND DEFICITS

Certain funds within the Governmental Fund Type and Proprietary Fund Type have fund deficits at June 30, 1997, as follows (amounts in thousands):

<u>Fund</u>	<u>Amount</u>
Special Revenue:	
Local Aid.....	\$ 1,405,603
Capital Projects:	
General.....	133,226
Highway.....	221,190
Local Aid.....	70,971
Other.....	1,369
Internal Service Funds:	
Employees Workers' Compensation.....	251,200
Employees Group Health Insurance .....	34,278

The Local Aid Fund has incurred a deficit primarily due to increased state funding for support of local communities for education and transportation. The revenues allocated to this fund have not been sufficient to support the increased spending. The Commonwealth will budget in future years the allocation of revenue to support the increased spending authority.

In the Capital Projects Funds, deficits reflect the time lag between capital expenditures and the receipt or allocation of proceeds from the sale of related bonds. Subsequent to June 30, 1997, the Commonwealth issued \$19,902,000 in college opportunity bonds and \$250,000,000 in general obligation bonds and \$103,615,000 in special obligations revenue bonds related to finance the deficits.

The deficit in the Internal Service Fund reflects the accruals for workers' compensation and group insurance claims of \$335,965,000. Funding of these deficits is dependent upon legislation actions to develop an actuarial funding plan.

## 10. RETIREMENT SYSTEMS

### *Primary Government –*

The Commonwealth is statutory responsible for the pension benefits for Commonwealth employees (members of the State Employees' Retirement System) and for teachers of the cities, towns, regional school districts throughout the Commonwealth and Quincy College (members of the Teachers' Retirement System, except for teachers in the Boston public schools, who are members of the State-Boston Retirement System but whose pensions are also the responsibility of the Commonwealth).

The members of the retirement systems do not participate in the Social Security System. The Commonwealth has also assumed responsibility for payment of cost-of-living adjustments (COLA) for the separate (non-teacher) retirement systems of its cities, towns and counties, in fiscal year 1997 and prior fiscal years. Effective for fiscal year 1998 and subsequent fiscal years the responsibility for funding COLA's for (non-teacher) systems is the responsibility of the respective systems.

Certain Commonwealth employees and current retirees employed prior to the establishment of the State Employees' Retirement System are covered on a "pay-as-you-go" basis.

### *Plan Descriptions –*

**State Employees' Retirement System (SERS)** is a single employer defined benefit public employee retirement system (PERS), covering substantially all employees of the Commonwealth and certain employees of the independent authorities and agencies including the state police officers at the Massachusetts Port Authority and the Massachusetts Turnpike Authority. The SERS is administered by the Commonwealth and is part of the reporting entity and does not issue a stand alone financial report.

**Teachers' Retirement System (TRS)** is an agent multiple employer defined benefit PERS with 104 participating employers. The Commonwealth is a non-employer contributor and is responsible for all contributions and future benefit requirements of the TRS. The TRS covers certified teachers in cities (except the City of Boston), towns, regional school districts and Quincy College. The TRS is administered by the Commonwealth and is part of the reporting entity and does not issue a stand alone financial report.

**State – Boston Retirement System (SBRS)** is hybrid multiple employer defined benefit PERS. SBRS provides provision benefits to all full-time employees upon commencement of employment with any of the various government agencies covered by SBRS. The Commonwealth is a non-employer contributor and is only responsible for the actual cost of pension benefits for SBRS participants who serve in the City of Boston's School Department in a teaching capacity. The cost of pension benefits of the other participants is the responsibility of the City of Boston. SBRS is not administered by the Commonwealth, it is not part of the reporting entity and a stand alone financial report is not available.

The Commonwealth has assumed financial responsibility for the COLA granted to participants in the 104 retirement systems of cities, towns and counties in fiscal year 1997 and prior fiscal years. Chapter 17 of the Acts of 1997, effective for fiscal year 1998, transferred the responsibility for funding future COLA's for separate (non-teacher) retirement systems of cities and towns to the respective system. Any future COLA granted by the Legislature to employees of these plans will also be the responsibility of the individual systems. The individual employer governments are also responsible for the basic pension benefits. The retirement systems are not administered by the Commonwealth and are not part of the reporting entity.

The policy for postretirement benefit increases for all retirees of the SERS, TRS, SBRS and COLA are subject to legislative approval.

**Membership** – Membership in SERS, TRS and SBRS as of January 1, 1996 is as follows:

	<u>SERS</u>	<u>TRS</u>	<u>SBRS</u>
Retirees and beneficiaries currently receiving benefits...	42,443	28,831	2,257
Terminated employees entitled to benefits but not yet receiving them.....	<u>1,706</u>	<u>1,607</u>	<u>602</u>
Subtotal.....	<u>44,149</u>	<u>30,438</u>	<u>2,859</u>
Current employees:			
Vested.....	43,679	46,432	3,897
Non-vested.....	<u>39,519</u>	<u>22,432</u>	<u>2,416</u>
Subtotal.....	<u>83,198</u>	<u>68,864</u>	<u>6,313</u>
Total.....	<u>127,347</u>	<u>99,302</u>	<u>9,172</u>

**Benefit Provisions** – Massachusetts General Laws establish uniform benefit and contribution requirements for all contributory PERS. These requirements provide for retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation. Benefit payments are based upon a member's age, length of creditable service, and group classification. The authority for amending these provisions is with the legislature.

Retirement allowance consists of two parts: an annuity and a pension. A member's accumulated total deductions and a portion of interest they generate constitute the annuity. The differential between the total retirement benefit and the annuity is the pension. Average retirement benefit is approximately 80-85% pension and 15-20% annuity.

Members become vested after ten years of creditable service. A superannuating retirement allowance may be received upon the completion of twenty years of service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65; for certain hazardous duty and public safety positions, normal retirement is at age 55.

**Funding Progress** - The SERS, TRS and SBRS actuarial determined contributions were computed as part of the actuarial valuation as of January 1, 1996. Significant actuarial assumptions used in the calculation of contribution requirements and net pension obligation include (a) rates of return on investments of present and future assets of 8.5% per year, (b) projected salary increases of 6% per year, (c) cost of living increases (inflation rate) of 3% per year on the first \$9,000 of the retirees total allowance, (d) interest rate credited to the annuity savings fund of 5.5% per year and (e) the use of the level dollar amortization method over 40 years closed period. Actuarial values of plan assets are equal to fair value.

The following table presents the required six year-year schedule of funding progress (amounts in thousands):

Actuarial Valuation as of January 1,	Actuarial Value of Plan Assets	Actuarial Accrued Liability	Net Pension (Obligation) Asset (NPO)	Funded Ratio %	Annual Covered Payroll *	NPO as a % of Covered Payroll
State Employers Retirement System						
1996	\$ 7,366,000	\$ 6,595,676	\$ 770,324	112%	\$ 2,989,000	25.8%
1995	5,879,000	5,327,027	551,973	110	2,992,000	18.4
1994	5,802,000	5,429,773	372,227	107	3,094,000	12.0
1993	5,071,000	4,840,405	230,595	105	2,919,000	7.9
1992	4,699,000	4,629,763	69,237	101	2,638,000	2.6
1991	4,052,000	4,053,705	(1,705)	100	2,300,000	(0.1)
Teachers Retirement System						
1996	7,553,000	7,025,561	527,439	108	2,810,000	18.8
1995	6,014,000	5,657,399	356,601	106	2,667,000	13.4
1994	5,956,000	5,673,619	282,381	105	2,573,000	11.0
1993	5,142,000	4,942,309	199,691	104	2,428,000	8.2
1992	4,784,000	4,659,680	124,320	103	2,032,000	6.1
1991	4,086,000	4,023,551	62,449	102	2,065,000	3.0
State Boston Retirement System						
1996	549,000	524,510	24,490	105	274,000	8.9
1995	438,000	416,113	21,887	105	232,000	9.4
1994	443,000	421,635	21,365	105	218,000	9.8
1993	370,000	354,800	15,200	104	206,000	7.4
1992	342,000	333,871	8,129	102	184,000	4.4
1991	301,000	293,072	7,928	103	203,000	3.9

\* - The covered payroll amounts approximate the employer payroll.

**Contributions Required and Contributions Made** – The retirement systems' funding policies have been established by Chapter 32 of the Massachusetts General Laws. The legislature has the authority to amend these policies. The annuity portion of the SERS, TRS and SBRS retirement allowance is funded by employees, who contribute a percentage of their regular compensation – 5% for those hired before January 1, 1975, 7% for those hired from January 1, 1975, through December 31, 1983, and 8% for those hired on or after January 1, 1984, plus an additional 2% of compensation above \$30,000 per year for those hired on or after January 1, 1979. Regular employees and state police hired after June 30, 1996 are required to contribute 9% and 12%, respectively, of their compensation plus an additional 2% of compensation above \$30,000 per year. Costs of administering the plan are funded out of plan assets.

The Commonwealth's contribution for the pension benefit portion of the retirement allowance of SERS and

TRS and required payments to cover SBRS and COLA contributions were originally established on a "pay-as-you-go" basis. As a result, amounts were appropriated each year to pay current benefits, without a systematic provision to fully fund future liabilities already incurred. Beginning in fiscal year 1988, the Commonwealth enacted the Pension Reform Act of 1987 and addressed the unfunded liability of SERS, TRS and its participation in SBRS and its COLA obligation. This legislation requires funding on a current basis, including amortizing the unfunded liabilities and liabilities for future COLA payments to local systems, over 40 years.

This legislation also directs the Secretary for Administration and Finance to prepare a funding schedule to meet these requirements, and to update this funding schedule every three years on the basis of new actuarial valuation reports prepared under the Secretary's direction. Any such schedule is subject to legislative approval. If a schedule is not so approved, payments are to be made in accordance with the most recently

approved schedule. This legislation further provides that if, during the first ten years of scheduled payments, the pension benefits paid exceed the scheduled contribution, the Commonwealth's contribution shall equal these benefit payments.

The legislatively approved funding schedule in place for 1997 was, based on the January 1, 1993 valuation, was filed with the Legislature on October 26, 1994. It required contributions by the Commonwealth of \$965,903,000 during the fiscal year ended June 30, 1997. Because total benefit payments out of the governmental funds exceeded this amount, no additional Commonwealth contribution is required.

Section 58 and 59 of Chapter 43 of the Acts of 1997 repealed the ten year cost of benefits and reduced the period for elimination of unfunded liability from fiscal

year 2028 to 2018. The new twenty-year level funding schedule effective July 1, 1997 is predicated on an 8.25% investment return assumption and calls for a payment of \$1,045,570,000 in fiscal year 1998.

GAAP requires that pension expenditures (costs) be based on an acceptable actuarial cost method and that they be not less than:

- Normal cost and amortization cost
- Interest and amortization on any unfunded prior service costs

The funding schedule discussed above follows an acceptable actuarial funding methodology to compute normal cost and the unfunded accrued actuarial liability.

The following table presents the schedule of employer contributions (amounts in thousands):

Actuarial Valuation as of January 1,	Annual Required Contribution (ARC)	Interest on NPO	Amortization of NPO	Pension Cost	Actual Contribution made	Net Pension (Obligation) Asset (NPO)	% of ARC Contributed	% of Pension Cost Contributed
State Employers Retirement System								
1996	\$ 232,158	\$ (46,918)	\$ 29,523	\$ 214,763	\$ 433,114	\$ 770,324	187%	202%
1995	249,640	(31,639)	19,614	237,615	417,361	551,973	167	176
1994	266,564	(18,448)	9,152	257,268	398,900	372,227	150	155
1993	243,587	(5,539)	2,694	240,742	402,100	230,595	165	167
1992	252,687	136	(65)	252,758	323,700	69,237	128	128
1991	282,682	2,335	(1,094)	283,923	311,400	(1,705)	110	110
1990	259,102	4,569	(2,103)	261,568	289,500	(29,182)	112	111
1989	298,800	2,160	(977)	299,983	269,866	(57,114)	90	90
1988	279,582	-	-	279,582	252,585	(26,997)	90	90
Teachers Retirement System								
1996	232,403	(30,311)	19,073	221,165	392,003	527,439	169	177
1995	277,343	(24,002)	14,880	268,221	342,441	356,601	123	128
1994	247,460	(15,975)	7,925	239,410	322,100	282,381	130	135
1993	225,838	(9,946)	4,837	220,729	296,100	199,691	131	134
1992	223,041	(4,996)	2,384	220,429	282,300	124,320	127	128
1991	249,436	(3,452)	1,617	247,601	266,900	62,449	107	108
1990	227,270	(1,459)	671	226,482	251,400	43,150	111	111
1989	249,108	(1,595)	722	248,235	246,531	18,232	99	99
1988	232,661	-	-	232,661	252,597	19,936	109	109
State Boston Retirement System								
1996	32,908	(1,860)	1,171	32,219	34,822	24,490	106	108
1995	28,168	(1,816)	1,126	27,478	28,000	21,887	99	102
1994	22,448	(1,216)	603	21,835	28,000	21,365	125	128
1993	20,463	(650)	316	20,129	27,200	15,200	133	135
1992	26,530	(634)	303	26,199	26,400	8,129	100	101
1991	23,149	(413)	193	22,929	25,700	7,928	111	112
1990	21,118	(251)	116	20,983	23,000	5,157	109	110
1989	21,744	(127)	58	21,675	23,225	3,140	107	107
1988	20,315	-	-	20,315	21,905	1,590	108	108

The total contributions required for SERS, TRS and SBRS are based on the entry age normal cost method using the same actuarial assumptions used to compute the net pension obligation.

During the year ended June 30, 1997, the Commonwealth's pension expenditure also included payments totaling \$19,005,000 to current retirees employed prior to the establishment of the current plans and to non-contributory plans.

**Post-retirement Health Care and Life Insurance Benefits** – In addition to providing pension benefits, under Chapter 32A of the Massachusetts General Laws, the Commonwealth is required to provide certain health care and life insurance benefits for retired employees of the Commonwealth, housing authorities, redevelopment authorities, and certain other governmental agencies. Substantially all of the Commonwealth's employees may become eligible for these benefits if they reach retirement age while working for the Commonwealth. Eligible retirees are required to contribute a specified percentage of the health care benefit costs which is comparable to contributions required from employees. The Commonwealth is reimbursed for the cost of benefits to retirees of the eligible authorities and non-state agencies. The Commonwealth recognizes its share of the costs of providing these benefits when paid. These payments totaled approximately \$153,538,000 for the fiscal year ended June 30, 1997. There are approximately 44,000 participants eligible to receive benefits at June 30, 1997.

## 11. DEFERRED COMPENSATION PLAN

The Commonwealth offers its employees a deferred compensation plan created in accordance with Internal Revenue Code (IRC) Section 457. The plan, available to all employees of the Commonwealth and its political subdivisions, permits them to defer a portion of their salaries until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are (until paid or made available to the employee or other beneficiary) solely the property and rights of the Commonwealth (without being restricted to the provision of benefits under the plan), subject only to the claims of the Commonwealth's general creditors and its political subdivisions participating in the plan. Participants' rights under the plan are equal to the fair market value of the deferred account for each participant. All plan assets are stated at fair value. It is the opinion of

the Commonwealth that it has no liability for losses under the plan, but it does have the duty of due care which would be required of an ordinary prudent investor. The plan assets are subject to the claims of the Commonwealth's general creditors; however, plan assets have not been used in the past to satisfy such claims.

Of the \$1,837,892,000 in the plan at June 30, 1997, \$1,236,901,000 was applicable to the Commonwealth; the remaining \$600,991,000 represents the assets of cities and towns participating in the plan. The assets and liabilities of the deferred compensation plan are included in Agency Funds at June 30, 1997. In August, 1996, the provisions of the IRC Section 457 were amended to require that eligible deferred compensation plans must hold its assets and income in a trust. Once the Commonwealth establishes such a trust, the Commonwealth's deferred compensation plan will be required to be reported as an expendable trust fund.

## 12. LEASES

### *Primary Government –*

In order to finance the acquisition of equipment, the Commonwealth has entered into various lease/purchase agreements, including tax-exempt lease/purchase (TELP) agreements which are accounted for as capital leases. These agreements are for various terms and contain clauses indicating that their continuation is subject to appropriation by the Legislature. For fiscal year ended June 30, 1997, lease/purchase expenditures under these agreements totaled approximately \$27,254,000.

At June 30, 1997, the Commonwealth's aggregate outstanding liability under capital leases, the present value of the net minimum lease payments, totals \$87,171,000. This liability is reported in the General Long-term Obligations Accounts Group. Equipment acquired under capital leases and included in the General Fixed Assets Account Group totals approximately \$131,464,000.

The Commonwealth leases real property and equipment under numerous operating lease agreements with varying terms. These agreements contain provisions indicating that their continuation is subject to appropriation by the Legislature. Rental expenditures for the fiscal year ended June 30, 1997 was approximately \$116,129,000.

The following is a schedule of future minimum payments under non-cancelable leases for the Commonwealth as of June 30, 1997 (amounts in thousands):

<u>Years Ending June 30,</u>	<u>Capital Leases</u>	<u>Operating Leases</u>
1998.....	\$ 26,426	\$ 96,202
1999.....	23,114	75,860
2000.....	16,707	55,078
2001.....	10,535	34,772
2002.....	7,458	25,850
2003 and thereafter.....	19,115	8,170
Total payments.....	103,355	<u>\$295,932</u>
Less: amount representing interest.....	(16,184)	
Present value of minimum lease payments..	<u>\$ 87,171</u>	

**University and College Fund** – At June 30, 1997, aggregate outstanding liability under capital leases, the present value of the net minimum lease payments, totaled \$49,924,000. Equipment acquired under capital leases and included in University and College Fund fixed assets totaled approximately \$70,230,000.

The University and College Fund Type leases real property and equipment under numerous operating lease agreements for varying terms. Rental expenditure for the fiscal year ended June 30, 1997 was approximately \$12,171,000.

The following schedule summarizes future minimum payments under non-cancelable leases for the University and College Fund Type (amounts in thousands):

<u>Years Ending June 30,</u>	<u>Capital Leases</u>	<u>Operating Leases</u>
1998.....	\$ 13,595	\$ 6,421
1999.....	12,315	6,326
2000.....	10,001	5,985
2001.....	6,501	5,406
2002.....	4,607	4,210
2003 and thereafter.....	12,250	6,898
Total payments	59,269	<u>\$ 35,246</u>
Less: amount representing interest.....	(9,345)	
Present value of minimum lease payments.....	<u>\$ 49,924</u>	

#### **Component Units –**

In fiscal 1997, the MBTA entered into several capital leases agreements on heavy rail cars, commuter cars and buses with various companies for varying terms. These leases provided for the Authority to sell and lease back these cars for a period ranging from 8 years to 18 years.

The following is a schedule by years of future minimum lease payments under capital leases together with the present value of net minimum lease payments as of June 30, 1997 (amounts in thousands):

<u>Years Ending June 30,</u>	<u>MBTA</u>	<u>RTAs</u>	<u>Economic Development Authorities</u>
1998.....	\$ 24,096	\$ 731	\$ 117
1999.....	23,071	731	36
2000.....	23,522	731	19
2001.....	23,887	731	-
2002.....	24,187	731	-
2003 and thereafter.....	591,692	3,655	-
Total payments.....	710,455	7,310	172
Less amount representing interest.....	(462,650)	(2,037)	(14)
Present value of net minimum lease payments..	<u>\$247,805</u>	<u>\$5,273</u>	<u>\$ 158</u>

The MBTA has entered into several sale-leaseback agreements with major financial institutions, covering equipment and rolling stock, which have been accounted for as operating leases. These leases expire through fiscal year 2013. Upon termination, the MBTA may purchase the equipment and rolling stock at prices equal to the lesser of a stated percentage (40%-70%) of the lessor's original purchase price or residual fair market value, as defined.

The MTA has operating leases for administrative office space and automatic toll collection equipment. These operating leases expire on various dates through June 2000. Lease expenses charged to the Massachusetts Turnpike and Sumner-Callahan-Williams Tunnels were \$873,380 of which \$554,207 were paid to the Commonwealth for office space in a state owned building.

The MTA leases property and air rights to others. The MTA earned \$4,566,813 in rental income. Rental income for the next five years is expected to approximate \$4,000,000 per year based on leases currently in effect.

The Economic Development Authorities and the RTAs have operating leases for office space.

The future minimum rental payments required under operating leases having initial or remaining non-cancelable lease terms in excess of one year are as follows (amounts in thousands):

Years Ending June 30	MBTA	MTA	RTAs	Economic Development Authorities
1998.....	\$ 13,669	\$ 853	\$ 15	\$ 3,594
1999.....	12,523	655	-	3,384
2000.....	12,909	583	-	2,749
2001.....	13,221	296	-	2,420
2002.....	13,279	-	-	1,695
2003 and thereafter...	136,807	-	-	1,271
Total payments.....	<u>\$ 202,408</u>	<u>\$ 2,387</u>	<u>\$ 15</u>	<u>\$ 15,113</u>

### 13. COMMITMENTS

#### *Primary Government –*

**Governmental Funds** – The Commonwealth is obligated to provide annual subsidies to the MBTA and certain regional transit authorities for contract assistance, debt service assistance and their net cost of service deficiencies. For fiscal year 1997, these subsidies totaled \$617,367,000 for the MBTA and \$55,842,000 for the RTAs. The net cost of service subsidy is recognized as a current liability of the Commonwealth, but is funded in arrears. At June 30, 1997, the Commonwealth has recorded the unpaid portion as a liability due to the MBTA of \$232,530,000 and due to RTAs of \$58,887,000. The cities and towns served by the MBTA and RTAs will be assessed their proportionate shares of the net cost of service. A receivable from cities and towns of \$224,057,000 is recorded at June 30, 1997, to account for these future reimbursements. The MBTA has also recorded net deferred charges of \$69,732,000 at June 30, 1997, which will be included in the Commonwealth's net cost of service subsidy in future periods. The Commonwealth has recognized its liability for these future costs in the General Long-term Obligations Account Group.

The Commonwealth is also statutorily obligated to provide contract assistance for debt service obligations to the MCCA and the Government Land Bank. Such assistance totaled \$30,643,000 in fiscal year 1997.

At June 30, 1997, the aggregate outstanding debt for which the Commonwealth is obligated to provide contract assistance support totaled approximately \$3,267,697,000 long-term and \$393,375,000 short-term. In addition, the Commonwealth guarantees the debt of certain local governments and of the building authorities included in the University and College Fund Type. The

guaranteed debt outstanding at June 30, 1997, was approximately \$237,012,000.

At June 30, 1997, the Commonwealth had commitments approaching \$3,089,493,000 for various construction projects. The majority relate to construction funding for a major infrastructure program known as the Central Artery/Third Harbor Tunnel Project, in which continued federal participation is anticipated. The remainder relates to a wide range of building construction projects.

**Pension Trust Funds** – At June 30, 1997, PRIT had outstanding commitments to invest \$260,964,000 in real estate, and \$517,750,000 in alternative investments.

**University and College Fund Type** – The Clinical Services Division and UMASS Health system has agreements with Blue Cross of Massachusetts, Inc., the Social Security Administration under the Medicare program and the Commonwealth of Massachusetts under the Medicaid program that govern payments to the hospital for services rendered to patients covered by these programs and require the hospital to prepare and file settlement reports annually. Provisions have been made in the financial statements for the estimated final settlements.

During 1997, Framingham State College received an appropriation of \$6,266,000 by the Commonwealth of Massachusetts for the Commonwealth's share of the cost of a new athletic facility. These funds are being held and controlled by the Division of Capital Planning and Operations (DCPO), and are under its control until costs are incurred. Once the costs of construction need to be paid, the DCPO will pay the contractor on behalf of the College. The total cost of the athletic facility is estimated to be \$12,532,000 and the College is expected to provide a matching amount of \$6,266,000. The College expects to fund their matching portion with the proceeds of bonds issued through the Massachusetts Health and Educational Facilities Authority (MHEFA). Expected commencement date of construction is in March of 1999.

#### *Component Units -*

As of June 30, 1997, the MWPAT has agreed to provide loans of \$35,000,000 to various local government units to be funded with grant awards received through June 30, 1997.

Massachusetts Housing Partnership Fund (MHP) has executed twenty-two loan agreements with seventeen banks for an amount of \$330,410,000 pursuant to the Massachusetts Nationwide Interstate Banking and

Community Reinvestment Act and funding commitments outstanding for funds not yet advanced of \$26,361,000 at June 30, 1997.

In 1993, the Massachusetts Turnpike Authority initiated a \$500,000,000 five-year reconstruction and improvement program. In connection with this program, the Turnpike has entered into construction contracts with various construction and engineering companies. The Authority also enters construction contracts for the Sumner and Callahan Tunnel with various construction and engineering companies. Construction contracts outstanding at December 31, 1996 approximated \$74,900,000.

The Worcester Regional Transit Authority has executed a cooperation agreement with the Worcester Redevelopment Authority (WRA) for the development of the Union Station site with an intermodal transportation center. The Transit Authority will fund the costs related to the design and renovation of the Union Station site through federal and state grants. The WRA is the owner and will be the operator of the intermodal transportation center. Once the development of the site is complete, the Authority will transfer the cost of the project to the WRA.

## 14. CONTINGENCIES

### *Primary Government -*

**Governmental Fund** – The General Fund services claims for all risks of loss for which the Commonwealth is exposed, other than workers' compensation and employee group health and life insurance, which are managed in its Internal Service Funds. A number of lawsuits are pending or threatened against the Commonwealth which arose from the ordinary course of operations. These include claims for property damage and personal injury, breaches of contract, condemnation proceedings and other alleged violations of law. For those cases in which it is probable that a loss will be incurred and the amount of the potential judgment can be reasonably estimated or a settlement or judgment has been reached but not paid, the Attorney General estimates the liability to be approximately \$73,500,000. Of this amount \$6,000,000 is expected to be paid in the General Fund and \$60,700,000 in the Highway Capital Projects Fund during the fiscal year 1998. Approximately \$6,800,000 is expected to be paid thereafter, and is recorded as a liability in the General Long-Term Obligations Account Group. The General Fund allocates the cost of providing claims servicing and claims payment by charging a premium to each fund based on claims paid during the year.

In addition, \$5,000,000 has been accrued in the general fund as an estimate for other claims and judgements.

The Commonwealth receives significant financial assistance from the federal government. Entitlement to these resources is generally conditional upon compliance with terms and conditions of the grant or reimbursement agreements and with applicable federal regulations, including the expenditure of the resources for eligible purposes. Substantially all federal financial assistance is subject to financial and compliance audits. Any disallowance's become liabilities of the fund which received the assistance. As of June 30, 1997, the Commonwealth estimates that liabilities, if any, which may result from such audits are not material.

The Commonwealth's abandoned property law requires deposit of certain unclaimed assets into a managed Fiduciary Fund. These unclaimed assets, less \$9,210,000 which is expected to be reclaimed and paid in fiscal year 1998, are to be remitted to the General Fund each June 30, where it is included as miscellaneous revenue. Amounts remitted during fiscal year 1997 totaled approximately \$64,884,000. Since inception, approximately \$681,056,000 has been remitted. This represents a contingency, because claims for refunds can be made by the owners of the property.

**Internal Service Fund** - It is the policy of the Commonwealth of Massachusetts to manage its risks internally and self-insure for claim settlements for risk of loss relating to workers' compensation and group health insurance in its Internal Service Fund. The Internal Service Fund allocates the cost of providing claims servicing and claims payment by charging a premium to each fund based on actual claims paid during the year. All risk financing liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include amounts for claims that have been incurred but not reported. Claims liabilities are reevaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors.

Employees Workers' Compensation and Group Health Insurance costs for Commonwealth employees are recognized when losses are incurred. The Commonwealth's outstanding liability for such losses at June 30, 1997, including claims incurred but not reported, is estimated to be \$335,965,000.

The Commonwealth has assumed responsibility for worker's compensation claims for all contractors and subcontractors working on the Central Artery/Third



Harbor Tunnel project. The Commonwealth's liability as of June 30, 1997 for such claims including incurred but not reported claims is estimated to be \$78,079,000. The Commonwealth has restricted assets set aside to pay for these liabilities.

Changes in the balance of claims and judgments liabilities for the primary government during fiscal 1997 were as follows (amounts in thousands):

	<u>Amount</u>
Liability, beginning of year.....	\$ 565,820
Current year claims and changes in estimates.....	864,442
Claims payments.....	<u>(828,081)</u>
Liability, end of year.....	<u>\$ 602,181</u>

**Component Units** - GASB Statement No. 10 "Accounting and Financial Reporting of Risk Financing and Related Insurance Issues" requires that liabilities or self-insured claims be reported if it is probable that a loss has been incurred and the amount can be reasonably estimated. The Massachusetts Bay Transportation Authority reserves such liabilities as accrued expenses as of June 30, 1997. Changes in the self insurance reserves in fiscal 1997 were as follows (amounts in thousands):

	<u>Amount</u>
Liability, beginning of year.....	\$ 64,155
Current year claims and changes in estimates.....	17,179
Claims payments.....	<u>(11,602)</u>
Liability, end of year.....	<u>\$ 69,732</u>

The Massachusetts Turnpike Authority has obtained health coverage for most employees through various commercial health maintenance organizations. The health coverage for certain other employees as well as coverage for job related injuries to all employees is self-insured by the Authority, with risks managed internally, at December 31, 1996, the accrual for outstanding claims under these programs, including claims incurred but not reported, was approximately \$14,000,000.

## 15. SUBSEQUENT EVENTS

**Primary Government** - Legislation was enacted to abolish four counties subsequent to year end:

Franklin County - Section 567 of Chapter 151 of the Acts of 1997, abolished Franklin County as of July 1, 1997 and transferred its functions, assets, debts and obligations to the Commonwealth.

Middlesex County - Chapter 48 of the Acts of 1997 abolished the Middlesex County as of July 11, 1997 and transferred its function, assets, debts and obligations to the Commonwealth.

In addition, Chapter 48 called for the preparation of a similar abolition of Hampden and Worcester Counties as of July 1, 1998 or earlier if the county fails to make a required payment on an outstanding bond or note. Commencing in fiscal year 1998 the Commonwealth will include in its audited financial statements the financial activity of the abolished counties; for fiscal years 1997 and prior periods, the responsibility for audited financial statements reside with the former county entity.

Subsequent to June 30, 1997, the Massachusetts Turnpike Authority (MTA) and the Massachusetts Port Authority each entered into a memorandum of understanding with the Commonwealth to contribute a minimum of \$700,000,000 and \$200,000,000, respectively, to finance portions of the Central Artery/Third Harbor Tunnel project. On September 1, 1997, the MTA issued \$1,700,000,000 for revenue bonds to defease its existing debt and to raise additional funds to make the agreed upon payments to the Commonwealth.

The anticipated payments are as follows (amounts in thousands):

<u>Years Ending June 30,</u>	<u>MTA</u>	<u>Massport</u>
1998.....	\$ 100,000	\$ 12,115
1999.....	600,000	30,735
2000.....	-	52,236
2001.....	-	-
2002.....	-	-
2003.....	<u>-</u>	<u>104,914</u>
Total payments.....	<u>\$ 700,000</u>	<u>\$ 200,000</u>

On November 17, 1997, the House of Representatives and the Senate signed into law chapter 152 of the Acts of 1997. This law, authorizes financing of \$609,400,000 to build a convention center in the City of Boston. It also approved \$67,500,000 in financing for the construction and renovation of facilities in Springfield and Worcester.

***University and College Fund Type*** – On February 12, 1997 the Board of Trustees of the University of Massachusetts voted to authorize the transfer of substantially all of the property and assets of the Clinical Services Division and the UMass Health System to the newly formed UMass Memorial Health Care Inc., or its designee. The legislation approving the merger was passed on November 25, 1997. Commencing in fiscal year 1998, the financial statements of the University and College fund type will be modified to reflect this change accordingly.

## **16. CHANGE IN REPORTING ENTITY**

The Commonwealth adopted Government Accounting Standards Board Statement No.14 (GASB 14), “The Financial Reporting entity” in fiscal year 1994. The University of Massachusetts Foundations Inc., the University of Massachusetts Dartmouth Foundations Inc., and the Worcester City Campus Corporation had previously been excluded from the reporting entity of the University of Massachusetts, have been added in the current fiscal year. See Note 1 for a description of the component units included in the reporting entity.